

**Manchester City Council
Report for Information**

Report to: Audit Committee – 23 April 2024

Subject: Annual Internal Audit Opinion and Report 2023/24

Report of: Assistant Director, Assurance and Risk Management

Summary

The Internal Audit Section delivers an annual programme of audit work designed to raise standards of governance, risk management and internal control across the Council. In accordance with Public Sector Internal Audit Standard 2450 this work is required to culminate in “an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.”

This report provides Members with the annual internal audit opinion and report on the Council’s system of governance, risk management and internal control.

Recommendations

Audit Committee is requested to consider and comment on the Annual Internal Audit Opinion and Report 2023/24

Wards Affected: All

Environmental Impact Assessment - the impact of the issues addressed in this report on achieving the zero-carbon target for the city

The work of the Internal Audit Service is designed to strengthen the Council’s systems of governance, risk management and internal control. Whilst this report and the work of the Service has no direct impact, it contributes to Manchester being a well-managed Council that is well placed to help achieve zero carbon objectives and the outcomes of the OMS.
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Our Manchester Strategy outcomes	Summary of how this report aligns to the OMS
A thriving and sustainable city: supporting a diverse and distinctive economy that creates jobs and opportunities	The work of the Internal Audit Service is designed to strengthen the Council’s systems of governance, risk management and internal control. Whilst this report and the work of the

A highly skilled city: world class and home-grown talent sustaining the city's economic success	Service has no direct impact, it contributes to Manchester being a well-managed Council that is well placed to help achieve zero carbon objectives and the outcomes of the OMS. Where they align to zero carbon and OMS priorities, individual audits and other assurance work as reported below should contribute to the strength of arrangements in place to achieve positive outcomes.
A progressive and equitable city: making a positive contribution by unlocking the potential of our communities	
A liveable and low carbon city: a destination of choice to live, visit, work	
A connected city: world class infrastructure and connectivity to drive growth	

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

- Internal Audit Plan 2023/24
- Internal Audit Assurance Updates to Audit Committee

1. Introduction

- 1.1. This report provides the annual opinion of the Assistant Director, Assurance and Risk Management with a summary outturn of the work of the Internal Audit Section for the period April 2023 to March 2024. Updates on progress with the delivery of the audit plan and the risks, opinions and assurances arising from audit work have been provided to Audit Committee during the year.
- 1.2. In Manchester, the Assistant Director, Assurance and Risk Management's approach is to obtain sufficient assurance to support the annual opinion, considering both internal audit work and other sources of assurance that include the following:
 - Audit plan and other audit assurance and advisory work completed in year and audit work from prior years, where systems or processes have not been subject to fundamental change.
 - Assessment and evaluation of reports to management and Member groups, board and committees. This includes reports to Executive and to Audit, Standards and Scrutiny Committees.
 - Consideration of existing Council strategies, policies, and procedures. cumulative audit knowledge and experience of how these are applied and the key controls in place to ensure policy compliance. This includes a robust process for the development of the Code of Governance, annual governance statement and the register of significant partnerships.
 - Review of the key assurances from Executive, Scrutiny Committees, Strategic Management Team, and Directorate Leadership Team reports including business plans, risk registers, performance and financial reports.
 - Reports from external stakeholders, regulators, auditors and inspectors
 - Data and information governance oversight through involvement on the Corporate Information Assurance and Risk Group chaired by the Senior Information Risk Owner and established to provide assurance that effective information governance and ICT security controls are operating, for managing, safeguarding and making best use of information.
 - Regular engagement with Directors and Heads of Service to understand key risks and issues; and assurance over how these have been addressed.
 - Review of risk registers and of actions taken and being planned to respond to key risks at programme, directorate and strategic levels.
 - Involvement in the development of the annual governance statement and the governance challenges and assurances that are derived from this process.
 - Attendance and review of minutes from project groups and boards. This has included a range of ICT projects and related task/finish groups.
 - Awareness of corporate developments and actions being taken to manage risk and maintain good governance through internal assurance sources such as finance, HROD&T, estates, health and safety and ICT (Information & Communication Technology).

- 1.3. The Internal Audit Plan proposed for 2024/25 contains some work carried forward from this year following an assessment that this work remains valid in terms of priority and continuing risk exposure.

2. Overall Opinion

- 2.1. For the year to March 2024, the Assistant Director, Assurance and Risk Management can provide **reasonable** assurance that the Council's governance, risk and control framework was generally sound and operated reasonably consistently.
- 2.2. This is an equivalent opinion to that issued in the previous years and reflects that overall governance, financial management arrangements and core systems and processes within the Council remained largely effective. The Council continues to respond to a wide range of risks and issues with areas for further improvement identified through audit and other assurance work, but these are counterbalanced by a number of key strengths.
- 2.3. Whilst it is important that we are not complacent, as there are significant challenges and risks that the Council faces now and in coming years, this position is particularly positive given the environment in which it is operating. There has been a further increase in major governance and financial resilience issues across the sector in the last 12 months and whilst Manchester is not immune to these the Council has taken positive steps to achieve balanced budgets whilst continuing to deliver innovation, change and a wide range of crucial services to residents. It has done this through the maintenance of a strong governance framework, appreciation of and application of risk management principles and the operation of reasonable systems of internal control.
- 2.4. The tables in appendix 1 summarise all the outcomes of audit work and other key sources of assurance that the Assistant Director, Assurance and Risk Management has considered in forming the above opinion. They describe assurances and risks / issues and Internal Audit's assessment of how it contributes to the overall assessment of the effectiveness of governance arrangements, management of corporate risks and systems of internal control.
- 2.5. Where audit work has been completed and an opinion issued this is included. Opinions continue to be Substantial, Reasonable, Limited or No depending on audit findings.
- 2.6. The key strengths and areas for development identified from this audit and assurance process are as follows:

Key Strengths

Financial Planning

- 2.7. As in previous years the Council has agreed a balanced budget through a robust system of governance and decision making. This process remains strong and starts suitably early to enable options and risks to be assessed and data utilised to support decision making. The high level of scrutiny and oversight of budget plans and proposals leading up to full approval by Council remains a key strength and whilst the financial position of the Council is very challenging, the governance and approach to financial planning and control remains positive.

Follow Up and Implementation of Actions

- 2.8. Positive actions have been taken in the year to respond to audit work and this has had an evident impact in areas such as housing services and schools where the outcomes of audits of fire risk assessment processes and safer recruitment have been addressed positively by management. It is also positive that in some areas such as direct payments and adaptations within adults services, management have taken the opportunity to utilise audit findings to reshape service processes and approaches to embed positive change in systems of governance and control. At 31 March 7% of high risk recommendations were classed as outstanding and this reflects ongoing positive engagement of management, members and the Audit Committee in promoting focus in this area.
- 2.9. Actions agreed to enable completion of the audit of the accounts have also been progressed in conjunction with the External Auditor. Despite national system challenges and local impacts of resource issues and technical requirements of auditing standards the backlogs in clearing annual accounts have been reduced, with accounts for 2020/21 and 2021/22 having been signed off and 2022/23 due to be presented to Audit Committee in April.

Procurement and Contract Management

- 2.10. Positive progress continues to be made across procurement, commissioning and contract management arrangements. This is reflected in the outcomes of Internal Audit reviews of capital projects and contract risk management as well as a range of other sources of assurance in the year.
- 2.11. A new contract management system has been implemented and is due to go live in April which has involved substantial amounts of user involvement and training. A spend analysis tool has also been developed by the Commissioning and Procurement Service that has been used to assess spend with suppliers and to engage senior leadership in spend and contract management awareness sessions. The Major Contracts Review Board has continued to meet regularly and has reported to Strategic Management Team and Members. The March Resources and Governance Scrutiny Committee for example received an update on key contracts and the approach to procurement, as well as the development and application of Delivery Model Assessments in line with the Sourcing Policy.

- 2.12. The Sourcing Policy is one of a number of examples of the Council working with partners including the Trades Unions to review methods of service delivery. This has involved high profile system wide change with the establishment of the GM Integrated Care Board and Place Based Partnership for health and care integration and the continued development of partnership work with Manchester Foundation Trust and other partners in the commissioning and delivery of health and care services in the City for example through the Manchester Local Care Organisation. Away from health, decisions have been made to review arrangements for housing repairs and there has also been action to incorporate the delivery of housing adaptations services back into the Council by September 2024. These are examples of how a Council strength is to take positive steps to consider how best services should be aligned and integrated with partners to best suit the needs of residents.

Commercial Governance

- 2.13. The Commercial Board is now well embedded in the Council governance and provides oversight and leadership for a wide range of activities including contracts, commercial decision making and ensuring effective ways of working with partners and stakeholders across the City. In year the Board has focused on high-risk contracts, due diligence and development agreements as areas for review. The former Deputy Chief Executive and City Treasurer led and championed much of this work and it is positive that the new City Treasurer will take this forward as chair of the Board.
- 2.14. The Council is well served by officers and teams with expertise in areas across finance and treasury management; company and partnership governance; regeneration and development; and commercial and governance law who support a wide range of complex projects and transactions across the Council.
- 2.15. Given the reported examples of failure across local government relating to financial exposure from investments and deals, it is crucial that this commitment to good commercial governance is retained and remains a focus for officers and members including the Audit Committee.

Strategy and Workforce

- 2.16. The Our Manchester Strategy has served the Council and the City for the last 10 years and remains an innovative approach to engagement and improvement for the Council and across the City. The Strategy is being refreshed this year and the approach, focus and priority afforded to this is evidence of the Council commitment to its values of pride in place, working together, trying new things, listening and understanding and valuing and respecting difference. The current strategy sets out priorities and aims for the place which cascade into organisational strategies and plans including the service business planning and personal appraisal processes. The efficacy of these and of governance arrangements continue to be assessed through a robust Annual Governance Statement.

- 2.17. There are many strategies that the Council is committed to in seeking positive outcomes in crucial areas like zero carbon and equality. Following year of the Child in 2022 the commitment to be a UNICEF Child Friendly City is an example of how the Council and partners align behind core priorities designed to make the City a great place to live and work. This alignment flows through to workforce development which remains an area of Council wide focus with staff surveys, organisational development planning and inclusion, diversity and equalities having remained areas of focus in the year.

Housing Services

- 2.18. Housing Services Improvement Board met regularly throughout the year providing an important oversight and scrutiny role to ensure continued momentum with the introduction of improvements to key risk areas including Damp and Mould and Fire Risk Assessment actions. Internal Audit have attended this Board and can see how additional leadership and capacity has led to evidenced improvement in the format and content of reporting and assurance. This reflects improved governance but also evidence of grip in respect of service change, improvement and performance. There is still more to do but there has been a marked, positive change from the position 12 months ago.
- 2.19. Internal Audit have presented updates at the Board and have reported positively on actions taken in response to audits including the limited assurance report on fire risk assessment and a more recent report on housing repairs.
- 2.20. Following internal audit work on fire risk assessments and concerns raised by service leadership, an external review of Building Safety of residential properties was commissioned and completed during the year. This was to provide assurance over the Council's approach to managing Landlord Compliance with risk standards and fulfilment of its regulatory, statutory and legislative obligations and requirements. This was in relation to the seven areas of Landlord Compliance activity (Gas, Electrical, Fire, Asbestos, Water, Lifts and Damp and Mould). The review resulted in a report containing detailed findings and recommendations which are being taken forward by the service to improve overall controls in this area.

Key Risks and Issues Arising from Audit Work

Payments issues in Adults and Childrens

- 2.21. In the year we have continued to report issues and concerns around payments linked to adults and childrens services. Audit Committee have received reports on foster care overpayments and duplicate payments that resulted in a limited assurance opinion. Work is ongoing to strengthen controls and improve reporting in this area and will be the focus of further follow up work in 2024/25. There also remain issues in relation to data integrity, accuracy and flow between systems for adults and children's social care that have consume considerable officer time to minimise payments

being on hold and delaying settlement with suppliers in both Childrens and Adults. Senior officers across the directorates and in finance and commissioning remain focused on solutions but as yet these risks remain high. There remain areas for further audit focus in 2024/25.

Data Quality in Core Systems - Early Years and Education Services

- 2.22. Challenges remain with the quality of data held in the Early Years and Education (EYES) system which is part of the integrated education and social care system for children and adults. Dedicated resource has been focused on resolving the volumes of duplicate records within the system, and while this has had a positive impact, it is clear that more work is required to address the scale of issues identified. Technological solutions are being explored with system providers and workarounds are in place but the integrity and accuracy of this data is essential if the system is to support effective ways of working. These issues have highlighted the need for clarity and alignment of resources to data and system ownership and governance persist and this is reflected in the draft 2023/24 Annual Governance Statement (AGS). We will seek assurance over these key aspects of control in 2024/25.

Core Compliance

- 2.23. Awareness and compliance with some of the key corporate policies and processes is also reflected in the draft AGS. This follows feedback from Finance and Internal Audit as well a number of services reporting the need to better consistent levels of understanding and compliance as part of the annual service governance self-assessment. While no services indicated that compliance levels were low, our compliance audit and investigation activity also evidenced room for improvement in relation to recruitment and officer gifts and hospitality. As well as work underway and planned in these areas suggested focus for the Council for 2024/25 should include risk management; counter fraud and whistleblowing; equality; and accessibility.

Mental Health Partnership

- 2.24. As reported regularly to Scrutiny Committees in 2023/24 there remain concerns over the delivery of the Council mental health duties by the Greater Manchester Mental Health NHS Foundation Trust (GMMH). There is a GMMH improvement plan in place risks and challenges remain to ensure statutory duties are met whilst improvement activity is being delivered. We have been assured that there is Council governance in place with updates to the Health Scrutiny Committee and the GMMH Improvement plan task and finish group which met through to February 2024. The Executive Director Adults Social Services chairs Assurance and Governance meetings that have been set up between the Council and GMMH to oversee the ongoing relationship and delivery of services for the Council. The February update confirmed that performance data provided by the Trust had improved but recognised that there was still significant work to be done, especially around the issue of demand and risk. The further development of assurance arrangements with GMMH and colleagues in Adults Services will be part of

audit focus in 2024/25

Schools

- 2.25. Risk based school audits have continued to result in a number of limited assurance opinions. As a result, schools have been asked to engage in counter fraud awareness training and have revived good practice guidance in the year. It is also positive that a number of schools have engaged actively with recommendations made in these audits. A programme of financial health checks at 70 schools is scheduled for completion by Autumn 2024. This will help provide a broader assurance across a large proportion of the total school estate and outcomes will be reported to Audit Committee during the year.

3. **Audit Plan Delivery**

- 3.1. Assurance activity and counter fraud work has been delivered and has been used to inform the annual audit opinion along with other sources of assurance. The table below provides a summary of audit and assurance activity for 2023/24 based on the approved audit plan and subsequent amendments, which were provided to Audit Committee in the year. Outputs include audit reports, management letters and advice and guidance as well as support to management.
- 3.2. Previous updates as reported to Audit Committee are included within the table below and show progress to completion of the plan. Some audits and discovery reviews that were in the planning process at the end of the year have been deferred and these are to be included in the assessment process for the 2024/25 audit plan as set out in Table 1.
- 3.3. There is an increase from the position reported in January due in part to sickness absence but also timing issues. For example the Factory Assurance and Public Health audits have been rescheduled to 2024/25 to reflect the new Practical completion proposals for the project and to enable a full planning session with the new Director of Public Health. The specific deferred audits are listed in Appendix 2.

Table 1: Status of Planned Audit Outputs 2023/24

Status	To March 2024	To January 2024	To September 2023	To July 2023
Final	50	39	29	13
Draft	4	6	4	2
Fieldwork	14	10	11	10
Planning	5	21	10	10
Not Started	0	5	26	34
Total	73	81	80	69
Deferred/Cancelled	16	9	1	0

4. **Audit Recommendations**

- 4.1. One of the sources used in the development of the audit opinion is an assessment of action taken to implement audit recommendations. There were 67 critical or significant priority recommendations being tracked by Internal Audit at 31 March 2024. Of these 26 were not due and 36 had been confirmed as fully or partially implemented. There were 5 outstanding recommendations past their due date.
- 4.2. Overall, this position is very positive and reflects engaged leadership from the Strategic Management Team, Executive Members and Audit Committee in overseeing actions arising from audit work.
- 4.3. This positive process of officer and Member review, oversight and challenge remain a strength in the system of internal control and will continue with detailed updates to Audit Committee during 2024/25.

Table 3: Critical and Significant Priority Recommendations

Area	Agreed	Fully	Partial	Overdue	Not Due
Adults	10	2	3	0	5
Childrens	6	1	1	1	3
Core	22	13	4	2	3
Growth and Dvt	10	1	3	2	4
Neighbourhoods	19	7	1	0	11
Public Health	0	n/a	n/a	n/a	n/a
Totals	67	24	12	5	26
%		36%	18%	7%	39%
Schools	121	65	22	25	9

5. Recommendation

- 5.1. Audit Committee is requested to consider and comment on the Annual Internal Audit Opinion and Report 2023/24.