

**Manchester City Council  
Report for Information**

**Report to:** Audit Committee - 15 April 2019

**Subject:** Head of Audit and Risk Management Annual Assurance Opinion and Report

**Report of:** Head of Internal Audit and Risk Management

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**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 Head of Audit and Risk Management’s annual assurance opinion and report on the Council’s system of governance, risk management and internal control.

**Recommendations**

The Committee is requested to consider and comment on the Head of Audit and Risk Management Annual Assurance Opinion and Report

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**Wards Affected:** All

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**Background documents (available for public inspection):**

Documents used in the development of the assurance report include:

- Internal Audit Plan 2018/19

- Internal Audit Quarterly Assurance progress reports 2018/19
- Internal Audit Review of Effectiveness 2018/19

## 1. Introduction

- 1.1 This report provides the annual opinion of the Head of Audit and Risk Management's with a summary outturn of the work of the Internal Audit Section for the 12 months April 2018 to March 2019. Update reports on progress including assurance opinions have been provided to Audit Committee during the year.

## 2. Overall Opinion

- 2.1 The Head of Audit and Risk Management can provide **moderate** assurance that the Council's governance, risk and control framework is generally sound and operated reasonably consistently. This is the same opinion as issued in the previous two years. The opinion reflects that overall governance, financial management arrangements and core systems and processes within the Council remain generally sound and there are notable strengths in some areas, whilst acknowledging that there have been issues identified as result of audit work and an assessment of other sources of assurance where appropriate. The key governance, risk and internal control strengths and issues of which the Head of Audit and Risk Management was made aware during the year which impact on the overall opinion are described below.

### Context

- 2.2 The Council operates in a complex and evolving environment with changes in local government and across the City and Greater Manchester impacting on policies and operations in a number of areas. Innovation and reform continues apace with significant programmes of transformation underway which are complex and wide reaching in a number of areas.
- 2.3 2018/19 was also a year of significant leadership changes with the departure of the departure of two Deputy Chief Executives and a number of other chief and senior officers. This has resulted in reconfiguration of the Strategic Management Team and of roles within the Senior Leadership Group. Recruitment to leadership posts in ICT and HROD are planned for early 2019/10.
- 2.4 The financial savings requirements of a reduced budget remain a critical challenge across the public services and the Council has been hit particularly hard in this regard. The impact of budget reductions is being managed through robust governance and financial management arrangements but the implications of a substantial reduction in Council resources and capacity over a number of years remains an ongoing area of inherent risk to the achievement of Council's ambitions and key priorities.

### Strengths

- 2.5 Whilst audit work has identified and confirmed issues and areas for improvement, there are a range of core strengths that have remained and been further developed in 2018/19. These are reflected in the Annual

Governance Statement and in other reports but key strengths from a governance, risk and control perspective include the following.

- 2.6 The Council's objectives and priorities are set through a defined process which remains robust. They are aligned with the strategic aims set out in the Our Manchester strategy and are underpinned by a clear programme of staff engagement and communications to ensure that all staff understand their contribution and are supported and developed through the Our People approach. Robust processes link these priorities with business objectives, budgets and workforce planning and are governed by timely and appropriate layers of officer and Member challenge and scrutiny. These arrangements have been further enhanced with the publication of Our Corporate Plan in 2019/20 which clearly articulates the seven key Council priorities for the next 2-3years and the implementation of a consistent approach to senior officer objective setting and review.
- 2.7 Performance is monitored and reported through clear framework of officer and Member governance arrangements including defined structures, decision making responsibility, oversight and scrutiny that are used to highlight areas of strength and areas for further development, investment or disinvestment. This provides early warning of key risks for example through a process of robust, timely budget monitoring. Arrangements are clearly codified through the Code of Governance and assessed through a well-embedded and comprehensive process for developing the Annual Governance Statement.
- 2.8 The Council remains well placed to respond to risks and has an active risk management process to support management in identifying and mitigating those risks. Work to strengthen and embed risk management processes was found to be positive though there remains further work to ensure consistency across the organisation. The scale and pace of transformation and change continues to be an inherent risk to the control environment and needs to be effectively monitored and managed.
- 2.9 Positive action continues to be taken to sustain improvements noted from the Children's Services Ofsted resinspection in 2017 and this has reduced exposure to risk in a number of areas, whilst it is acknowledged that work is still progressing and financial pressures remain. Improvement is overseen by strong governance arrangements that engage officers, Members and key partners. Similar arrangements have been established to support the Adults Improvement Plan in 2019/20. There has been further development of integration and partnership governance across Manchester Health and Care Commissioning (MHCC) and Manchester Local Care Organisation (MLCO) to support the ambition of a system wide approach to health and care.
- 2.10 In addition to health and social care, significant, ambitious developments across the Council continued in key areas including of the Our Town Hall and Factory projects; strategic development, housing and regeneration projects; highways investment; and the improvement and development of strengthened approaches to children's and adults social care including the development of the new Liquid Logic system. As in previous years much of this requires

collaboration with colleagues within the Council and with partners as well as effective business and budget planning and control in order to meet the ambitious objectives for the City. There were no new and significant issues raised in these areas however there is a need to ensure that the Council remains agile and able to monitor and manage inherent risks across this ambitious agenda to ensure that goals and objectives can be met.

- 2.11 Progress in ICT security, aspects of ICT resilience, delivery of a number of ICT projects and programmes as well as steps taken to improve information governance arrangements in line with the requirements of the General Data Protection Regulations have been positive. There are clear governance and risk management arrangements in these areas to support in the delivery of objectives. Business continuity planning has been further strengthened with the development plans to adapt to the loss of people, premises or systems; and the Council has responded positively and proactively to incidents that have occurred during the year.
- 2.12 There remains strong senior leadership ambition with a clear focus on key priorities, however there is a need to ensure capability, capacity and continuity to fully support the breadth of current and planned activity, particularly given a number of senior officer changes in the year. To date the response has included reconfiguration of the Strategic Management Team (SMT) and strengthened Senior Leadership Group arrangements. Change provides opportunities for review and realignment of responsibilities and this will be critical to ensure that progress against priorities is sustained. Bheard surveys and wider workforce engagement has been applied in the further development of workforce planning and ways of working that have been underpinned by a comprehensive programme of staff engagement and communications. The risks inherent in change at senior management level and in ensuring a motivated, engaged workforce at all levels of seniority are understood and are reflected in ongoing leadership and management activities.
- 2.13 Core financial systems remain robust with a comprehensive integrated budget and business planning process that is subject to high levels of challenge, review and scrutiny. The budget is underpinned by detailed scenario planning considering the impact of potential changes in income streams including Council Tax and Business Rates as well as wider demographic, inflationary and service pressures. This enables prudent, focused investment in areas that support the delivery of key Council priorities.

### **Issues Arising from Audit Work**

- 2.14 Limited and No assurance opinions have been issued where there are significant concerns about the system of internal control or an absence of controls which could put the process or system objectives at risk and urgent improvement is needed.
- 2.15 In the year Internal Audit issued 10 limited assurance opinions which was two more than in 2017/18 as shown in the summary below. The audit of

framework contracts in 2018/19 however resulted in four published reports, three of which provided only limited assurance. If this overall framework contract review was treated as a single audit, then the number of limited opinions in 2018/19 is the same as in the previous two years. This suggests that whilst challenges remain there has been no material weakening of the overall governance, risk management and control environment.

2.16

<b>Limited or No Assurance Opinions</b>		
<b>2018/19</b>	<b>2017/18</b>	<b>2016/17</b>
Adults: Management Oversight and Supervision	Adults: Transition to Adulthood	Adults: Independent Living Fund
Adults: Mental Health Casework Compliance	Adults: Contract Management: Homecare	Childrens: Foster Care Payments
Adults, Childrens and ICT: Liquidlogic and ContrOCC (Data Migration and User Acceptance Testing)	Adults: Disability Supported Accommodation Services, Quality Assurance Framework	Childrens: North West Foster Care Framework – Contract Monitoring
Childrens: MASH Follow Up Audit	Adults: Client Financial Services Appointee Support - Cash Delivery	Childrens: Management Assurance over Casework Management – Supervisions
Childrens: Early Years 30 Hours Funding	Childrens: MASH Compliance Audit	Schools: Attendance Data: Thematic Audit
Contracts: Insurance Arrangements	Contracts: Contract Creation and Formalisation	Schools: Cash Handling: Thematic Audit
Contracts: Whistleblowing Arrangements	ICT : Mobile Connections – Data Analysis	Neighbourhoods: Christmas Markets – Financial and Management Overview
Contracts: Frameworks Contract Governance – Overall Report	ICT: Disaster Recovery	Neighbourhoods: Highways Maintenance Review ( <i>No Assurance</i> )
Contracts: Highways Framework		
Contracts: Taxi Framework		

2.17 Limited and No assurance opinions included some audits impacting on a number of directorates as they are cross cutting, for example in respect of framework contracts and the Liquid Logic data migration and user acceptance testing. Where audit work identified areas for improvement Internal Audit made recommendations to address the risk or provided advice and guidance to enable managers to make changes to processes or policies. The recommendations in limited opinion reports are designated as critical or major

to reflect the level of risk and agreed action plans are regularly monitored by management and Internal Audit. Progress to implementation was reported to Executive Members and Audit Committee on a regular basis to offer scrutiny and challenge with senior officers required to attend Audit Committee to ensure timely and appropriate responses were proposed and undertaken. Attendance in the year has included updates on children's services, health and social care assurance; contract management; adults improvement; and events management.

### **Adult Services and Public Health**

- 2.18 Concerns in relation to the effectiveness of the system of internal control across Adult Services were raised in the year. These included time taken to complete actions originally agreed in response to limited assurance opinions issued in 2017/18. The Director of Adult Services has developed an Improvement Plan to address critical areas of risk. This followed from a Directorate self-assessment of strengths and weaknesses and was also informed by the four limited audit opinions reported in 2017/18 and a further two limited opinions in 2018/19 relating to Management Oversight and Supervisions and Mental Health Casework Compliance. The supervisions audit highlighted that the approach to supervisions was leading to inconsistency including frequency of supervisions, record keeping, training and monitoring arrangements and the Mental Health audit noted concerns around timeliness; record-keeping; management oversight; and reporting.
- 2.19 Progress on addressing solutions to identified concerns was monitored by the Director of Adult Services, SMT, Executive Member, Scrutiny Committees and Audit Committee in year and the Improvement Plan is the mechanism in which actions have been identified and prioritised for the coming year. For Transition to Adulthood objectives these include to re-develop the vision and strategy for delivery encouraging coordination across a number of Council services and in Homecare Services a new approach has been developed and contract is being procured which will enable a new framework for management of delivery and payments to be put into place. Internal Audit is satisfied that the risks are recognised and that there is an active strategy in place including enhanced senior management roles to support implementation of the service improvement plan however there is significant work to do to deliver on the transformation change required and this will be monitored in year.
- 2.20 A limited assurance opinion was issued in respect of the Liquid Logic project which is to replace the adults and children's social care casework and finance systems. This is major priority project and as well as technology change it has significant change management elements as the approach to casework management, recording and reporting will also change to reflect new processes designed into systems. The audit assurance focused on user acceptance testing and data migration and concurred with the view from the project that the proposed timescale for go-live presented significant risks and supported the decision from the Project Board to delay until the summer. The risks inherent with this project are well understood at senior level and are

additional resources and senior management oversight have been applied to help ensure a successful go live in 2019/20.

## **Highways**

- 2.21 Progress has been made in response to concerns first raised in 2017 in respect of highways maintenance and subsequent areas for improvement identified across the Highways Service. The service leadership and management team recognise there remains more to do to further embed consistent approaches to quality assurance, procurement, contract management and delivery and these are dependent on a range of improvement activities being supported through an Improvement Plan and Improvement Board chaired by the Director of Neighbourhoods.
- 2.22 The completion of these actions including implementation of a service redesign and upgraded ICT systems will help the service to respond effectively to the scale of challenges and the opportunities presented by unprecedented capital investment allocated for highways improvement.

## **Contract Management and Monitoring**

- 2.23 A number of audits and investigations during 2017/18 and 2018/19 confirmed the need to continue to work toward implementation of new procurement and contract management arrangements across the Council. Whilst there are significant areas of positive and best practice this remains inconsistent as reflected in audit findings and reports and management recognise that there is further work to do. To support this process of change, audits were carried out and proposals for improvement made. Limited opinions were issued for five areas which have crosscutting implications:
- Contractor Insurance Arrangements
  - Contractor Whistleblowing Arrangements
  - Framework Contracts Governance
  - Framework Contract: Taxis
  - Framework Contract: Highways
- 2.24 Internal Audit is confident that the need for improvement is well understood and consider that management proposals and current actions underway are appropriate to seek to strengthen the control environment and build on work already done to improve compliance and consistency. Positive actions in 2019/20 include the development of a contract register, risk assessment of contracts, development and promotion of good practice standards and training and awareness for contracts officers across all directorates. This work, alongside the expertise provided by the Corporate Procurement Team, has been positive but there is more work to do to embed a consistent high quality of approach across all services. This was reflected in a report to Audit Committee by the Head of Integrated Commissioning in November 2018. The new Head of Integrated Commissioning and Corporate Procurement will take this work forward in 2019/20.

### 3 Audit Plan Delivery

- 3.1 Assurance activity and counter fraud work inform the audit opinion. The following table provides a summary of audit work in 2018/19 based on the approved audit plan and amendments agreed in the year. These included changes to timing of some work and the addition of opinion or other assurance work. Outputs include audit reports, management letters and advice and guidance as well as support to management on service improvement. Details of Counter Fraud activity will be provided in the Annual Fraud Report in July 2019.
- 3.2 The analysis excludes most of the general advice and guidance provided to the business and involvement in working groups and projects as these are not captured in formal reports. Figures include completion of brought forward work as agreed with managers. The outcomes of audit work were shared with senior officers and Audit Committee during the year and a summary of key assurance is provided at section 4 below.
- 3.3 The approved Annual Audit Plan was substantially completed by the end of March with carry forward anticipated into the early part of 2019/20 to finalise work which is planned and started in March. A full outturn will be reported to Audit Committee in July 2019.

Audit Status	Audit Plan Outputs	Additional and Contingency Items
Final Report Issued	72	3
Draft Report Issued	15	
Fieldwork Completed	9	
Fieldwork Started	8	
Planned	5	
<b>Total</b>	<b>109</b>	<b>3</b>
Cancelled / Deferred	8	

- 3.4 Draft reports are awaiting management responses and then will be issued as final with management action plans. Some audit scopes were reviewed and planned outputs merged where there was a reassessment of the audit approach since the approval of the original plan. For example, the audit of Risk Management was delivered as a cross cutting review but with a single consolidated report rather than a series of directorate level reports as was the original proposal when the plan was developed in March 2018.
- 3.5 Cancelled and deferred work was reviewed and agreed with management and Audit Committee in year. Requests for change were largely due to timescale changes; changing assessment of risk and addition of new work; or because assurance had been obtained from another source. The deferred /cancelled audits were:

- Manchester Support for Independent Living; Public Contracts Regulations Compliance; Recruitment and Selection and Special Education Needs deferred and included as quarter one activity within the 2019/20 Annual Audit Plan.
- Data Retention and Disposal was incorporated in an audit of General Data Protection Regulations Post Implementation
- Software Licensing Follow Up which was deferred to 2019/20 to enable testing to take place following the implementation of recommendations
- Grant Certifications which were no longer required for Highways Local Pinch Point and Highways Challenge Grant.

3.6 Audit outcomes were confirmed to Audit Committee as part of quarterly reporting and a full outturn report will be provided in July 2019. At this stage there are a number of audits at planning stage which is due to the need to reconfirm plans with clients and reassessment of scope and timing where other means of gaining assurance may be available.

3.7 The sections below describe assurance and consultancy outcomes in delivery of the annual audit plan. The status of all work is shown at Appendix One.

## **4 Children and Families**

### **Children's Services**

- 4.1 Children's Services worked to embed agreed service improvement activities across a range of service areas as the improvement journey from the 2014 Ofsted inspection and improved judgement in December 2017 continued. Improvement actions continued to be overseen through officer and Member governance arrangements and are integrated in core service plans as well as the Children and Young People Plan (CYPP).
- 4.2 In order to effectively contribute to the delivery of the priorities set out in the CYPP Plan, during 2018 the directorate structure and approach was 're-shaped and refined' to maximise leadership and management capacity to strengthen practice, partnership working and promote a strengths based approach with the aim of reducing unnecessary demand and improving the lives of children and young people. This more integrated approach has been reflected in the Children and Education Services Directorate Plan, "Delivering Excellence, Getting to Good" which confirms the seven key priorities for the service moving forward.
- 4.3 From Internal Audit work there was moderate assurance over the arrangements in place to ensure sufficient and appropriate supervision and management oversight arrangements for social care casework. The opinion was based on the level of compliance with the agreed supervision policy in a number of key areas. While there was evidence of understanding the need for supervision and social workers and managers did review casework there was a need to strengthen the evidence supporting those reviews and ensuring consistency. The audit highlighted the need to ensure greater levels of adherence to the supervision policy including frequency of supervision

meetings; consistent and complete recording of case actions and development actions and the need to ensure effective management review of compliance and quality of supervision across teams. To support this action should be taken to improve supervision training which would encourage learning and enable processes to be embedded. The introduction of Liquid Logic and associated practice standards is one of the factors that is anticipated to drive further improvements in compliance in 2019/20. Given issues raised in this report and in particular lower levels of compliance in particular areas of the service, Internal audit undertook additional testing to add further insight and analysis for the Director and will undertake focused follow up testing in 2019/20 with the aim of providing improved assurance following the completion of management improvement actions

- 4.4 Follow up on risks noted in a compliance audit on the Multi Agency Safeguarding Hub (MASH) in 2017/18 was undertaken with the aim of confirming actions had been taken in response to the limited assurance opinion. This testing identified that whilst some actions had been taken these were only partially complete and a further limited assurance opinion was issued to confirm steps still required to ensure risks were addressed. As reported to Audit Committee in quarterly audit recommendation monitoring reports these actions were addressed by the end of the year and this provided a higher level of assurance over controls in place to report overall timeliness of the process and associated reporting; recording of consent; and available guidance and procedures for staff working across the Hub.
- 4.5 Alongside other support services across the Core, Internal Audit provided advice and support for the implementation of the Leaving Care service following the transfer of service back into the Council from Barnardo's in October 2018. Advice was provided for financial governance and control including cash handling as well as logistics and building arrangements. A number of areas of concern including security and within financial control operations were raised and support has been provided to a working group who are addressing service need and taking action to address risk. The appointment of new senior managers to manage the service need will support the new in-house service with its improvement plans and there is a positive direction of travel.
- 4.6 An audit of Early Years 30 hours funding arrangements resulted in limited assurance with particular concerns around the accuracy and robustness of the payments process; the administrative burden caused by the manual nature of processes across the system which also significantly increased the risk of errors; and the lack of training that had been provided to staff delivering the service. Positive management responses and actions were agreed to address the recommendations made and Internal Audit consider if these are actioned as planned then systems and processes will be significantly strengthened.

## **Education**

- 4.7 A moderate assurance opinion on the use of penalty notices for unauthorised school absences was based on confirmation that the protocol used was in line

with legislation and statutory guidance and generally the approach was operating as intended. Internal Audit did identify some improvement could be made including consistency of application to sibling groups and compulsory school age and where reporting and financial management of the process could be enhanced to ensure that the resources required for penalty recovery remains cost neutral.

- 4.8 A thematic audit of procurement in schools provided moderate assurance over procurement arrangements and activities. The root cause of the non-compliance was considered to be the limited capability (in terms of knowledge, skills and capacity) of some key personnel engaged in high value procurement exercises and/or those expected to offer challenge, monitoring and oversight in a procurement exercise. Schools could explain the rationale for the method of procurement employed but were often unaware of Financial Regulations for tendering and what should be involved and so were not always in compliance with requirements. Individual schools were given assurance opinions which varied with seven substantial; five moderate; and four limited opinions.
- 4.9 Cash handling in schools was assessed in unannounced audit work and moderate assurance provided overall. The picture was mixed with some improvements in managing cash and a drive toward cashless systems however there were a number of similar issues arising over systems of financial control. Local reports were provided to each school and a summary provided the overall assessment including the need to enhance financial accounting, security and record keeping. This is being used to provide best practice advice to all schools.
- 4.10 Internal Audit has been reviewing the audit approach to schools in order to more effectively provide independent assurance as part of the overall schools assurance framework. While there are a range of clear policies, guidelines and advisories issued to schools and defined requirements in relation to management of risk and control in schools, matters identified by or reported to the Council regularly involve governance and financial control compliance issues and financial irregularities which have reputational and financial implications. Intelligence from across the Council including those from thematic audits; investigations; and a range of other Council teams suggests that provision of financial health checks by Internal Audit will be a useful addition to the assessment of control risk and this is included as a proposal in the 2019/20 Annual Audit Plan.

### **Adults Services**

- 4.11 Audit work across Adults Services focused primarily on assurance over governance arrangements in respect of health and social care integration, core audits of aspects of social care delivery and follow up of limited assurance opinions issued in 2017/18.
- 4.12 An audit of governance arrangements within Manchester Health and Care Commissioning (MHCC), the partnership with Manchester Clinical Commissioning Group (MCCG) followed on from an earlier audit undertaken by

health audit colleagues. The audit focused on governance at Board level and with review of the operation of two board sub committees and resulted in moderate assurance. The main issue preventing a higher assurance opinion at that stage was a lack of sufficient Council representation and membership below Board level, specifically on the Executive Committee and Governance Committee, and the impact this could have on effective and inclusive decision making. The outcome of this audit, the earlier health auditor's work and a Board governance review resulted in a consolidated report to the Board and subsequent changes to the governance structures of MHCC as reported to Audit Committee in February 2019. Given changes in senior leadership across the Council and a review of roles and responsibilities it is critical that effective and appropriate Council representation is retained within these partnership governance arrangements during 2019/20.

- 4.13 Assurance has also been obtained by evidence of closer coordination of MHCC and Council risk management arrangement and risk registers and through the role that the Head of Audit and Risk Management discharges as a member of the MHCC Governance Committee.
- 4.14 Substantial assurance over the arrangements in place to monitor and report against the MHCC operational plan. From this work we concluded that the arrangements in place for 2018/19 were an improvement on the previous year's iteration and, if applied consistently were likely to improve the oversight, accountability and ultimately the likelihood of achieving 2018/19 priorities. The report confirmed that work streams, milestones, impact measures and high-level objectives and strategic aims were clearly described in the operational plan and owned at appropriate managerial levels and appropriate arrangements were in place to monitor progress in delivery of the operational plan.
- 4.15 Further work is scheduled to be completed in early 2019/20 focused on the MHCC Financial Sustainability Plan. The scope of this is currently being discussed for agreement with Council officers represented in MHCC and colleagues from health, including the auditors to Manchester CCG. Similarly, the scope for an audit of Council governance in respect of the Manchester Local Care Organisation is currently being finalised with key stakeholders for completion in May 2019. This will also reflect where appropriate on the findings of the recent Care Quality Commission of Manchester Foundation Trust which reflected positively on the arrangements within MLCO for community health services.
- 4.16 Liaison with Adults Services colleagues, health partners and between respective audit teams is ongoing and this was covered further in the separate report requested by Audit Committee on the Health and Social Care Assurance Framework and presented in February 2019. Developments will also include closer liaison between the Council and Manchester CCG Audit Committees in areas of common risks and shared assurance requirements. Further work is planned to develop this framework and working protocols in 2019/20.
- 4.17 In terms of core adult services, a number of issues raised by Internal Audit in

2017/18 and 2018/19 are understood and accepted by senior management and are reflected in the service Improvement Plan. This plan focuses on business critical areas ensuring the basics are in place for adult social care and to provide a solid foundation to support the successful delivery of health and social care reform and integration. This plan was referred to in the Adult Services Directorate Business Plan which was presented to Health Scrutiny Committee in February 2019 and focused on key improvement activities around processes, practice, workforce and resources. The service has seen a restructuring and appointment of three new senior managers to support the Director of Adult Services in leading and directing service delivery alongside transformational change. Internal Audit are supportive of this approach which should enable resources to be directed to critical areas of priority and concern and provide a more joined-up approach to improvement. Areas of concern raised by Internal Audit in the last 24 months are included as action points within the overall plan.

- 4.18 Limited assurance was given for the arrangements in place for management oversight and supervision in Adult Services. This was mainly due to the insufficient frequency of supervisions held with social work staff which was not in line with Council requirements and a lack of clarity over when and consistency in how and where records should be recorded and retained. There was concern identified about the lack of supervisions training for managers, the need for a monitoring and quality assurance framework over supervisions and recognition that there was a need to improve record keeping to ensure that decisions were clearly recorded. Management recognised the issues and had begun to take action to address them to confirm expectations, enhance guidance and ensure compliance.
- 4.19 For the Mental Health Casework audit, limited assurance was provided over arrangements in place to secure assurance over Greater Manchester Mental Health Trust's delivery of delegated statutory social care functions in line with relevant policies and procedures. The opinion was based on a need to strengthen control over timeliness; record keeping; management oversight; and record keeping. Internal Audit is engaging with management, the Trust and the Trust auditors to ensure appropriate management responses are agreed to address risk and we are aware that pre-planned actions have already been taken by the Trust that will reduce the reported level of risk from this audit.
- 4.20 Homecare is for the support of older and disabled people to stay at home where possible and to be enabled to return from hospital care promptly. Limited assurance in 2017/18 led to management actions to improve the arrangements including seeking to strengthen control over the scrutiny of service delivery and payments to providers. In responding to this audit it was clear that the timescales proposed by previous management for the recontracting of homecare services had been too ambitious and were therefore not met. This slippage has been reported to Audit Committee during 2018/19. The process for the renewal of contract is now well underway with learning from the audit to be included in the new framework management and monitoring arrangements.

- 4.21 Transition to adulthood remains a challenge to ensure that there are appropriate coordinated arrangements for young people as they move from Children's Service support to Adults Service support. The key actions for improvement are understood and being developed including the need for a clear vision and strategy; enhanced governance arrangements and development of policies and procedures which will ensure that the needs of the young person and thereby the requirements of the Care Act are met. This is a priority area of work for Adults and Children's services in the coming year and there is a Transition Board involving senior officers in place to monitor and direct action. This is an area where initial agreed timescales for agreed actions were not met and where the Director of Adults Services opted to take a more holistic, system-wide approach to secure sustainable change and improvement. Internal Audit support this approach and will seek assurance in 2019/20 that the new agreed actions to redesigned the approach to transition with partners, stakeholders, young people and their families have progressed as planned.
- 4.22 Action had been taken to address issues within the Client Financial Services in relation to support of appointee cash delivery and Internal Audit consider this has led to improvement of the controls. As a result, Internal Audit are assured that management have taken appropriate steps to ensure that recommendations have been fully implemented reducing the exposure to risk in this area.

## **5 Corporate Core**

### **Information and ICT**

- 5.1 ICT continue to progress a complex programme of infrastructure and software upgrades. The Data Centre Replacement Programme has migrated most of the Council's data and systems to upgraded servers, and is due to deliver a new network and twin data centre solution by a revised end date of January 2020. This project remains inherently high risk due to its scale and complexity, and the full benefits of a resilient ICT environment will only be delivered on successful completion. The level of risks is reflected in the current programme risk register and in the Corporate Risk Register, with regular updates to SMT and the ICT Board. A further update on progress is proposed to be presented to Audit Committee in September given that until such time as this solution is implemented the Council continues to operate without an effective disaster aversion or disaster recovery solution. Internal Audit have engaged with the project team to monitor delivery in this area and will continue to seek assurance through attendance at Project Board and Steering Group meetings.
- 5.2 As noted in 2.13, the Liquidlogic and ContrOCC project has also been a key area of focus for audit work. This project is significant as it moves both Adults and Children's Social Care services, and attendant financial processes to new systems and there are short deadlines for delivery. We provided limited assurance in relation to progress on user acceptance testing phase 4 (UAT4). Internal Audit confirmed that there has been substantial progress in the design, configuration and build of the system, and the associated user testing.

However, progress on development and delivery was behind schedule and there were a number of challenges for the project to address before any decision to 'go live'. Findings from audit work were not unexpected by management and the project has now undertaken a comprehensive review of required deliverables, to give assurance over completion of work to support the agreement of a revised delivery date of July 2019.

- 5.3 The capability to deliver these major projects alongside a current and planned pipeline of other complex and cross cutting programmes and projects including the User Experience Programme and Digital Experience Programme, as well as a range of other demands for systems, services and support from across the Council and through partnerships, remains an inherent risk and is reflected on the Corporate Risk Register. This is an area of ongoing focus for SMT and the ICT Board. Recruitment to the post of Director of ICT will also be critical to the management of risk in this area.
- 5.4 Cyber security remains a risk for the Council as with many other organisations. The ICT Service created a dedicated function in 2018/19 to co-ordinate and drive improvement of cyber security arrangements, and Internal Audit have been engaged with work on Public Service Network (PSN) compliance and incident management. System security has proven robust in year and significant actions have been taken in reducing the scale of old technology such as Windows 2003 servers as part of an ongoing process of maintaining a more secure, supported ICT infrastructure. A dedicated audit in this area has been agreed and is scheduled for delivery in early 2019/20.
- 5.5 In relation to General Data Protection Regulations (GDPR), a cross-service project team led the delivery of procedural changes to support Council compliance with the requirements before the implementation date of May 2018. We recognised that this would take time to fully embed across the Council. Through participation in the ICT Board and Corporate Information Assurance and Risk Group (CIARG) we are positively assured that breach reporting systems are working effectively and that the level of breaches reported to the Information Commissioner's Office (ICO) is low. Those breaches that have been reported have been comprehensively investigated and where possible contained, with clear actions agreed to manage the risk of reoccurrence. Given the scale of data controlled or processed by the Council this remains an area of ongoing risk and we are currently working on a dedicated audit of data retention and disposal, and plan to deliver further GDPR-related work in 2019/20.

### **Financial Systems**

- 5.6 Regular quarterly audit reviews of payroll were carried out to provide assurance over the validity and accuracy of the processing of transactions using payroll standing data and monthly payroll data. The findings did not indicate any systemic weakness in the operation of controls within the process and no concerns were raised. As payroll data offers itself to data analysis it is proposed to continue to use this approach in 2019/20 applying computer

assisted audit tools and techniques to detect any anomalies, exceptions or irregularities that traditional sample testing may fail to identify.

- 5.7 Two audits were undertaken focused on budget monitoring, in relation to the Housing Revenue Account and the general revenue fund. In both cases we were positively assured that the control framework was operating effectively. The process of budget setting for 2019/20 is also considered to be robust with clear evidence of opportunity for oversight, challenge and scrutiny; and clear links through to Council priorities and directorate business plans.
- 5.8 Internal Audit have supported the profit recovery specialist firm we appointed who have begun work in reviewing supplier statements, identifying potential duplicate payments and potential unclaimed VAT over the last six years. To date this work has resulted in £204k of funds returned to the Council, primarily arising from the supplier statement review work. Internal Audit will share outcomes with the Deputy Chief Executive and City Treasurer to confirm decisions taken on recovery actions and will report outcomes to Audit Committee in due course. Whilst values identified over this period are significant, we have not identified evidence of any systematic weaknesses in internal control which would affect the overall opinion over the robustness of financial controls.
- 5.9 A number of mandatory certifications for European and Central Government grants including URBACT 3 and Factory were completed. Audit work confirmed that spend was compliant with grant conditions and provided certification to the relevant funding bodies. No significant concerns were found and the internal control was assessed as sound.
- 5.10 Moderate assurance was provided for the audit of Capital Strategy: Benefits Realisation. This audit focused on arrangement for the articulation, tracking and reporting of declared benefits deriving from capital projects. It was recognised that the overall governance and delivery of the capital portfolio had been subject to significant review and change, with new systems embedding across the organisation. Internal Audit support these positive changes and recognise that this will take time to embed consistently given the scale and breadth of the capital portfolio across ICT, highways, housing, development projects and other capital-funded activities. This is an area where 2018/19 has seen a strengthening of corporate governance and financial oversight and further audit work is planned in 2019/20 to review arrangements supporting this process at portfolio level.
- 5.11 Governance over capital schemes and development projects has also been developed in the last three months with the establishment of new Commercial Governance Programme Management Office reporting to the Deputy City Treasurer. This includes the appointment of new Head of Commercial Governance to provide additional support to the Commercial Board, key officers and Strategic Directors including the Deputy Chief Executive and City Treasurer in strengthening arrangements for the governance and management of commercial projects and partnerships.

## Other Core

- 5.12 There were five audits in relation to the Our Town Hall (OTH) project during the period and Internal Audit were assured with the overall direction and control over this flagship project. We were satisfied that the process for the appointment of the management contractor and independently verified that project governance was appropriately designed to support effective decision making, oversight and scrutiny. Similarly, we were assured that the evaluation process used for the selection of the main contractor for the project was impartial and robust with appropriate supporting records. A six month health check also confirmed substantial assurance over compliance with processes for change control; monitoring and use of contingencies; and monitoring of key project decisions which had been determined as key controls for the successful delivery of the project. We provided some advice and made recommendations for further enhancing the use of the project management system and budget reporting as part of the process which are being considered by management.
- 5.13 To provide independent assurance over security in advance of closure of the Town Hall we undertook audit site visits and were able to obtain substantial assurance that arrangements were in place to prevent the unauthorised removal of any information or assets from the building pre or post closure. Following this we reviewed procedures for and decant of the Town Hall heritage assets collection and assessed the adequacy of the controlled and secure removal of the assets. This resulted in a moderate assurance opinion. A significant amount of work was carried out by a small, specialist team who recognised the risk and worked well to develop and coordinate plans for the movement of a substantial collection safely and securely. The process was successful and the collection is now in long term, managed secure storage. This included the decant of the heritage silver collection in respect of which we worked with the project team, security and insurance to provide advice and guidance over the proposed approach and agreed method to catalogue, secure and transfer assets safely off site. The overall opinion was not higher because the process for removal had been impeded and complicated by inconsistent and incomplete historic asset records and the need to address a large volume of non-heritage assets also stored at the Town Hall before the process could be effectively completed and recommendations to strengthen controls will enable consideration of medium and longer term decisions over asset management
- 5.14 The administration of Disclosure and Barring Service (DBS) checks was given moderate assurance following significant improvements made particularly with regard to the updating of the procedural framework and the management of risk assessments which were the key issues identified by Internal Audit in 2015. The core DBS activity for Council employees who have direct contact with vulnerable groups had been significantly strengthened as a result and the process was actively managed. A DBS Group of senior officers from across the Council are aware that there is still work to be done to fully embed consistent best practice across the organisation including specialised areas and activity to do this is ongoing. Following the departure of the Director of HROD there is

again a need to reconsider who is assigned the role of strategic lead in SMT and assigned as Lead Countersignatory.

## **6 Growth and Neighbourhoods, Strategic Development and Highways**

- 6.1 Internal Audit provided limited assurance over governance arrangements supporting Highways Framework TC886. There was increased focus given to social value and the level of input and oversight from the Director of Highways to ensure the smooth operation of the framework. However, there were a number of key areas where further work was required to mitigate the inherent risks currently associated with the framework. In particular, there was a lack of certainty over the direct allocation process and how value for money could be demonstrated due to the lack of competition or a set pricing schedule and there remained restrictions over other authorities' ability or inclination access to the framework. While there were plans to enable this to be achieved, further work was needed including confirmation of the governance of the management fee which would apply for the Council administering the framework. Management recognise this and have agreed to action a recommendation to address this by the end of the year.
- 6.2 The wider improvement plans for the Highways Service are overseen by an Improvement Board that is now chaired by the Director of Neighbourhoods. This Board oversees progress across a wide range of workstreams including workforce planning, systems, finance and governance with a remit to support management in development across all aspects of the service. Whilst the scale of activity being overseen is substantial this Board has progressed well and provides senior officer oversight of steps being taken to address a number of longstanding issues and risks across the Service given its critical importance to the delivery of Council priorities and objectives.
- 6.3 The need for strong governance over procurement and contract management was emphasised in March 2019 when the principal contractor for the Manchester Salford Inner Relief Road project unexpectedly went into liquidation. A robust incident management response and the procurement of a new main contractor were undertaken but this incident, as well as wider public sector contractor failures such as Carillion, highlights the ongoing need for proportionate ongoing contract monitoring, business continuity and dynamic financial due diligence processes, not just in highways but across critical Council services. This is a current area of focus for the audit; risk and resilience; finance; procurement and commissioning; and legal services.
- 6.4 An audit of implementation of the City Centre Review sought to provide assurance over governance arrangements in place to monitor delivery of the agreed action plan which covered four key issues relating to: Place (littering, alcohol and substance misuse, antisocial behaviour); Rough Sleeping, Homelessness and Begging; Public Realm; and Management and Governance. The City Centre Review report contained a number of proposals to drive improvements which led to the creation of an 'Implementation Plan' and establishment of the post of 'Manager of City Centre Public Services' as well as the City Centre Accountability Board (CCAB). Governance was robust

and arrange of actions agreed in the Review had been successfully completed but Internal Audit provided moderate assurance as there was a need to refresh the strategy and link CCAB priorities more clearly to the priorities and objectives of the internal City Centre Coordinating Group (Senior Officers) or the Integrated Neighbourhoods Team (Council Officers and external parties) to ensure visibility and synergy of the wide range of positive but challenging work in these areas. We acknowledged this need for refresh was a natural evolution of arrangements given the pace and scale of change in the City and the issues faced by the Council and partners working to address a number of key issues across the City Centre.

## **7 Procurement, Contracts and Commissioning**

- 7.1 Internal Audit provided assurance over contract governance arrangements for Council framework agreements in relation to roles and responsibilities; compliance with framework terms; and oversight and monitoring. Three frameworks were reviewed as part of the audit: Corporate Taxi Contract; Highways TC886; and Financial Services. The overall assessment of limited assurance came from the themes emerging from this and from previous audit activities around frameworks including investigations into allegations of non-compliance. Recommendations to drive improvements included the need for further clarification of the responsibilities of call off managers and framework managers; development of minimum expectations over framework delivery monitoring including social value; and the review and enhancement of guidance for allocation of work through frameworks. Actions have been agreed and are already underway in response to this work. For example, the Deputy City Treasurer has recently met with suppliers from the Financial Services Framework to develop a greater level of assurance and seek further transparency over their existing social value activities; and encourage firms to consider further contributions they might make in this area.
- 7.2 The social value aspect of contracts is a significant consideration for the Council when entering arrangements with suppliers. Internal Audit provided moderate assurance over the application of the Council's framework for the achievement of corporate social value priorities. The arrangements for coordination, monitoring and oversight of social value commitments could be strengthened to ensure consistency and this was already an area acknowledged by senior management as requiring further development. It was recognised that the basis for and application of the requirements for Social Value continues to evolve throughout the Council and that rightly there is strong involvement of Members in this process with clear and visible leadership in this regard from the Executive Member for Finance and HR. The profile and focus on social value is clearly high within the Council and with suppliers and much has been done to ensure that this is considered and integrated in the procurement decision including increasing the social value weighting from 10% to 20% and the production of guidance for both officers and suppliers. Key officers are aware of the need to strengthen and streamline processes to ensure maximum organisational value and impact is achieved and progress is positive but further work is needed to ensure consistency in application and in the realisation of benefits.

- 7.3 Internal Audit provided advice to the Integrated Commissioning Team to assist the work to improve corporate contract governance arrangements. We acknowledge the considerable work already undertaken by the Integrated Commissioning and Corporate Procurement teams seeking to raise contract management standards and awareness of contract related risks across the Council. Internal Audit also contributed to development of guidance to be included in the Contract Management User Guide around whistleblowing and insurance requirements and will continue to provide further support as required.

## **8 Counter-Fraud and Investigations**

- 8.1 Detailed information in relation to anti-fraud and investigations for 2018/19 and an analysis of the effectiveness of the activity will be provided in the Annual Fraud Report to be presented to Audit Committee in July 2019. The impact and outcomes of counter fraud activity is considered in the Head of Audit and Risk Management Annual opinion. A summary of work during the year is shown below however the details of cases and actions are provided confidentially in the Annual Fraud Report due to the nature of the work.

### **Proactive Work**

- 8.2 During the year work has been undertaken to develop the counter fraud framework building on the activity in the previous year and taking up a number of other proactive assignments within the Council and in working with partner organisations. This included the introduction of an e-learning tool as part of a wider programme of counter fraud training to promote both staff and Member awareness of fraud risk.
- 8.3 A review and update of Council Counter Fraud Policies was carried out to ensure that they remain relevant and up to date in line with legislation. A review by the whistleblowing charity Protect confirmed that the policies remain fit for purpose, and also made some helpful suggestions for improvements based on best practice which were used in further revision. The revised suite of policies were presented to Audit Committee for consideration in March 2019. Following comments and input from the Trades Unions these policies will be finalised for approval by the Chief Executive in April 2019. The next phase which includes a wider programme of communications, awareness and focused training for key services will be completed in quarter one of 2019/20.
- 8.4 Internal Audit continued to coordinate the Council's participation and response to the national data matching exercise which is designed to help identify potentially fraudulent claims, errors and overpayments from the public purse by comparing data sets from other authorities for anomalies and irregularity. Where appropriate these have been assigned to relevant teams to be progressed. A significant number of these related to housing benefit which have been referred to the Department for Work and Pensions (DWP). Internal Audit have also volunteered to take part in a pilot scheme with enhanced data sets from HMRC which seeks to further strengthen the risk assessment and analysis for potentially fraudulent activity.

- 8.5 Internal Audit continue to liaise with Directorates through assigned staff with regard to the completion of relevant checks required on numerous data matches and there have been no reported significant matters arising at this time and as such does not highlight any concerns over the overall control environment or risk of fraud. An update report providing details of outcomes of the pilot and main exercise will be produced including areas deemed high risk in terms of outcomes and timescales for completion for consideration by the Deputy Chief Executive.

### **Reactive Corporate Cases**

- 8.6 Internal Audit received 58 referrals of potential fraud, theft or other irregularity in the year April 2018 to end of February 2019 of which 19 were handled under the Council's whistleblowing policy. As in previous years the nature of the case work varied and some specific casework was complex with multiple issues and involved partners and third party relationships as well which added to the challenge of co-ordinating responses. Some work has been resource intensive this year in order to effectively investigate the allegations and led to a significant pressure on resources at a senior level in the Internal Audit Service and the need to reschedule some work in year which was absorbed in the review of allocated plans.
- 8.7 Internal Audit continued to assess the incoming referrals and to prioritise work in line with policy. The risk assessment process enabled confirmation of the objectives for the work and the role of Internal Audit and/or other Council services in the investigation of matters arising. As in previous years this process has included referrals to others where appropriate including Council managers; HROD; school governors / management; and Boards of third party organisations following privacy impact assessment. Referrals to the police have been made in a few cases where prosecution is a potential outcome including theft and fraud. Those cases have required ongoing support from Internal Audit based on the need for collation of evidence and witness statements and there are significant elapsed times on some prosecution cases due to dependencies on external legal processes. A significant example is the new date set in September 2019 for the prosecution of an ex-employee of Abraham Moss Community school in relation to the theft of £30k in 2016.
- 8.8 Allegations investigated followed a similar pattern in as previous years and included theft of money in schools; abuse of position; procurement and contract award irregularities; and business rates fraud. Where appropriate and supported by evidence this has led to suspension of staff and disciplinary action; custodial sentence; recovery of assets or money; and in some cases confirmation that there is no case to pursue.

### **Council Tax Reduction Scheme, Housing Tenancy and Right to Buy**

- 8.9 Of cases received in respect of Council Tax Reduction, Housing Tenancy and Right to Buy work has been on going throughout the year demonstrating the value added from casework. Key outcomes at this stage are:

**Right to Buy** - Six referred cases currently under investigation and one successful prosecution. Total right to buy discount loss prevented £306,000.

**Council Tax Reduction Scheme** - 113 referrals and 88 followed to investigation stage. This has so far resulted in one administrative penalty and one successful prosecution. The value of recovery is currently £18,000 in overpayment and £1,000 in penalties.

**Council Tax Single Adult Discount** - Of 11 referrals in year there have been 4 cases taken to successful prosecution.

**Housing Tenancy Fraud** - 50 referrals in year of which 44 are being followed though in investigations which is a significant increase on last year. There have been two prosecutions. Estimated value of recovered properties is £144,000.

## 9 Recommendation Implementation

- 9.1 The total number of critical, major or significant priority recommendations fully implemented across the Council as at February 2019 was 64% with a further 17% partially implemented as shown below. Combined this is above the target of 70% for implementation and shows on going progress to mitigate risks.
- 9.2 Outcomes from follow up audits on all limited or no assurance opinions will ensure that Internal Audit can assess and report to management and Audit Committee on the level of assurance over actions being taken to address high risk. A full recommendations update will be taken to Audit Committee. In our opinion managers continue to place emphasis on the implementation of critical recommendations to address exposure to risk and seek pragmatic and practical solutions where possible. Active reviews and regular updates continue to have a positive impact on action to implementation and in exploring reasons for any delays.
- 9.3 A separate report quarterly Internal Audit report is provided to Audit Committee on all outstanding critical, major and significant recommendations and the reporting and escalation process has been strengthened to ensure Strategic Directors and Executive Members are made aware of outstanding recommendations on a regular basis.

### Critical, Major or Significant Priority Recommendations by Directorate

Directorate	Number Due	Implemented	Partially Implemented	Referred Back	Outstanding
Core	43	30	3	5	5
Children's Services	19	11	3	0	5
Adult Services	20	12	6	0	2
Neighbourhoods and Strategic Dvt	26	16	6	0	4
<b>Total</b>	<b>108</b>	<b>69</b>	<b>18</b>	<b>5</b>	<b>16</b>
<b>Total %</b>		<b>64%</b>	<b>17%</b>	<b>4%</b>	<b>15%</b>

## **10 Recommendation**

10.1 Audit Committee is requested to consider and comment on the Head of Audit and Risk Management Annual Assurance Opinion and Report