

**Manchester City Council
Report for Information**

Report to: Audit Committee 11 February 2019

Subject: Internal Audit Assurance Report 2018/19

Report of: City Treasurer / Head of Internal Audit 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. This work culminates in the Annual Head of Internal Audit Opinion and an Annual Assurance Report. This report provides a summary of the audit work undertaken and opinions issued in the period April to December 2018.

Recommendations

Members are requested to consider and comment on the Internal Audit Assurance Progress Report to 31 December 2018.

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 (June 2018)
- Internal Audit Assurance Report (July 2018 and November 2018)
- Outstanding Audit Recommendations Report (July 2018 and November 2018)

Internal Audit Assurance Report April to December 2018

1 Introduction

- 1.1 This report provides a summary of the work of the Internal Audit Section from April to December 2018 including progress toward delivery of the annual audit plan, a summary of assurance opinions on completed audits and a summary position on the implementation of Internal Audit recommendations. The opinions and statistics are shared with Directorate senior managers for discussion; to agree actions and are used to inform an overall annual assurance opinion.

2. Audit Programme Delivery

- 2.1 The following table is a summary of the outturn against the audit plan to date.

| Audit Status | 2017/18 Brought Forward | 2018/19 Audit Plan Outputs | Additional Items |
|----------------------|-------------------------|----------------------------|------------------|
| Final Report | 15 | 33 | 2 |
| Draft Report | 0 | 6 | 0 |
| Fieldwork Completed | 0 | 7 | 0 |
| Fieldwork Started | 0 | 11 | 0 |
| Planning | 0 | 19 | 1 |
| Not started | 0 | 8 | 0 |
| Cancelled / Deferred | 0 | 6 | 0 |
| Totals | | 105 | 3 |

- 2.2 Outputs in the above table include audit reports, management letters and advice and guidance as well as support to management on service improvement. The number of total expected outputs has risen as the blocks of audit time assigned to areas of risk including the Our Town Hall Project and Contract Monitoring have been broken down to assignment level in line with plans.
- 2.3 The table does not include investigations or counter fraud casework activity the key focus of which is summarised in section nine and outturn is reported in the annual fraud report. The analysis does not include most of the advice and guidance provided to the business through involvement in working groups and projects across the Council as these are not captured in formal reports.
- 2.4 Three further items are shown as cancelled/deferred in addition to three items previously reported to Committee in November. Two relate to grant certifications for

Highways Challenge Fund and Local Pinch Point that have not been delivered as there is now no specific requirement to provide grant certifications. As such the progress table shows these items as being cancelled. This position will be reconsidered should requests from grant funders be received.

- 2.5 Discussions with management have confirmed that significant changes in the Special Educational Needs management and leadership arrangements are being implemented, including an interim structure and system changes. Given the importance of this area we propose to provide advice and guidance on the arrangements being implemented during quarter four and that Internal Audit carry out an audit in quarter three of 2019/20 to assess operational effectiveness of the new arrangements. To accommodate this urgent need, subject to Audit Committee comments, an audit of recruitment and selection is proposed to be deferred to 2019/20 as the timing of this planned work is not critical and can be rescheduled without presenting a significant risk.
- 2.6 It should be noted that work on Leisure Contract Performance Management has been limited to advice and guidance due to the implementation timeframe for the contract and the proposal is to consider further assurance needs as part of the 2019/20 audit plan.
- 2.7 The sections below describe the progress made against the agreed annual audit plan in this quarter. The status of the annual audit plan in terms of progress to delivery is shown at Appendix One for completeness.

3 Adult Services

- 3.1 The Mental Health Casework audit was completed and limited assurance was provided in the draft report over the Greater Manchester Mental Health Trust's delivery of delegated statutory social care functions in line with relevant policies and procedures. The opinion was impacted by the need to strengthen control over timeliness; record keeping; management oversight; and record keeping. We are currently engaging with management, the Trust and the Trust auditors to ensure appropriate management responses are agreed for each recommendation to support finalisation of the report. We are now in the process of engaging with senior management both within the Council and within the Trust, and with health audit colleagues, to fully agree the scope and content of the second planned Mental Health audit in relation to Panels.
- 3.2 Liaison with Adults Services colleagues, health partners and between respective audit teams is ongoing and this is covered further in a separate report requested by Audit Committee on the Health and Social Care Assurance Framework.
- 3.3 Internal Audit provided limited assurance over 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 where records should be recorded. 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.

- 3.4 A range of issues raised by Internal Audit in 2017/18 and 2018/19 are understood and accepted by the service and are reflected in a broader high priority programme plan of improvement focused on ensuring the basics are in place for adult social care and to support the successful delivery of health and social care reform and integration. This plan is referred to in the Adult Services Directorate Business Plan which is being presented to Health Scrutiny Committee on 5 February and focuses on key improvement activities around processes, practice, workforce and resources.
- 3.5 Follow up work on Client Financial Services in relation to support of appointee cash delivery confirmed that actions had been taken to improve the controls. 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.
- 3.6 A follow up of Homecare Framework Contract Management assessed progress made in implementing improvements in management controls. Internal Audit was able to confirm good progress had been made in some areas but one recommendation remained outstanding. Although this is considered to be partially implemented there remains further work to be done to assign appropriate resource to the completion of ongoing checks over variations between expected costs and actual payment requests. Management fully accept this needs to progress and are looking at options to best resource this.

4 Children's Services

- 4.1 Internal Audit provided a limited assurance for Early Years 30 hours funding based on concerns around the accuracy and robustness of the payments process including overpayments; the administrative burden caused by the manual nature of processes across the system (which significantly increased the risk of errors); and the lack of training that had been provided to staff delivering the service. Actions have been confirmed by management in response to these findings and will be followed-up by Internal Audit in six months to assess progress made to strengthen control.
- 4.2 The audit of the Assessed and Supported Year Employment (ASYE) programme was progressed. The one-year employer-led induction programme provides assessment and support to newly qualified social workers during their first year in employment and there are financial incentives paid by the Department for Education which can be claimed at the start and on completion of the induction programme. The fieldwork has been completed and the work will be reported shortly.
- 4.3 Following completion of a similar audit across Adult Services, the audit of Management Oversight and Supervisions was progressed in the period. The audit aims to provide assurance over arrangements for sufficient and appropriate supervision and management oversight and will be reported in quarter four.

5 Education and Schools

- 5.1 The traded Data Protection Officer (DPO) offer to schools has been in operation for five months with over 100 schools signed up to the offer in Manchester and Bolton. Development of contracts, model documentation and initial DPO meetings were completed as planned. Successful recruitment to the three Data Assurance Officer posts was finalised in the period and the new resources will be in place before year

end. In the interim this service has been delivered by officers from the audit teams who have managed this demand alongside existing commitments, albeit this has meant some slippage in the finalisation of some work which is being prioritised for completion by the Service in quarter four. Schools are actively seeking the advice and guidance offered through the DPO service and compliance visits are in the process of being undertaken, which alongside training and awareness activity, will be the core focus of the new officers during 2019.

- 5.2 The 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 knowledge 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. There was good understanding of the three quotations requirement for goods and services over £2000; however, feedback on this was that the volume of contracts and spending above this limited had an impact on resourcing and schools reported struggling with obtaining three comparable quotes, with some firms reluctant to provide these where winning work was not certain. Individual schools were given assurance opinions which varied with seven substantial; five moderate; and four limited opinions.
- 5.3 Audit work on unannounced cash handling reviews in a sample of schools was completed and work from quarter four was brought forward to enable this work to be concluded early. Findings were shared with each school following visits with some local recommendations made as necessary to enhance financial accounting, security and record keeping. Emerging themes and best practice will be shared with management in an overall report with an overall assurance opinion and Internal Audit also propose to issue a guidance note to all schools to share best practice and advice.

6 Corporate Core

- 6.1 Following our work on Capital Strategy: Benefits Realisation we issued a moderate assurance over 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. These are positive changes that we support but 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.
- 6.2 There were three audits in relation to the Our Town Hall (OTH) project during the period. In the first OTH audit we reviewed the process for the appointment of the management contractor and independently verified the evaluation process used. We were satisfied that the process was impartial and robust with appropriate supporting records.
- 6.3 The second OTH review was a six month health check in which we gave 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 found that there were

adequate controls in all three areas with work done to develop and start to embed these. 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.

- 6.4 The third planned audit was in support of the decant of the Town Hall heritage assets collection. The scope of work was to assess the adequacy of the controlled and secure removal of the assets. Internal Audit provided moderate assurance over the procedures and implementation activity. We acknowledged that a significant amount of work was carried out by a small team who worked well to develop and coordinate plans for the movement of a substantial collection of individual items safely and securely. The process was successful and the collection is now in long term, managed secure storage. The 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. To support the process we made recommendations to strengthen controls in place which will enable consideration of medium and longer term decisions over asset management. In addition, alongside security, facilities management and insurance colleagues, the Service was engaged by the Town Hall team in developing the plans for the decant and offsite storage of the Town Hall silver collection. This was a clear and well defined process with appropriate security arrangements in place to protect the collection during packing and transfer off site.
- 6.5 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. In the first month of this work approximately £60k has been identified as eligible for recovery and will be progressed as a result of the first analysis carried out. We will share outcomes with the City Treasurer to confirm decisions taken on recovery actions and will report outcomes to Audit Committee in due course.
- 6.6 The quarterly payroll review was carried out and reported. The findings did not indicate any systemic weakness in the operation of controls within the process and no concerns were raised. Further work will be carried out as planned for quarter four as part of the agreed continuous audit approach.
- 6.7 A number of grant certifications including URBACT 3 and the Factory were completed in line with plans. No significant concerns were found and each grant was certified. Further work on grant certifications will be carried out in quarter four based on timescales prescribed by funders. On EU grants we found there have been some challenges obtaining relevant supporting evidence from some partner countries and continue to monitor this and any impact on deadlines for certifications.
- 6.8 Internal Audit provided limited assurance in relation to progress on user acceptance testing phase 4 (UAT4) for development of the new Liquidlogic and Controc systems for social care services. We 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 our work were not unexpected by management as the project team and

ICT Board were aware of development issues arising. We understand from the latest project board that all parts of the system have now been installed ready for testing in UAT5. The Programme Manager has advised us that by the end of that phase, he will provide a formal update to Project Board and ICT Board on system readiness for implementation. We have made a recommendation to the Programme Manager on the information that we consider should be required for the Project Board to enable them to take informed decisions on the delivery of the project.

- 6.9 Internal Audit continued to offer advice and support in the quarter including further support for the implementation of the Leaving Care service following the transfer of service back into the Council from Barnardos in October 2018. We gave advice on some financial control arrangements and there has also been support provided by the Health and Safety service who have examined the building and made recommendations for a number of improvements which are under consideration. Consideration of the assurance requirements to support service delivery will be included in audit planning for 2019/20 working with the new management team to agree scope and timing.

7 Growth and Neighbourhoods; and Strategic Development

- 7.1 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 Operations 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. 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 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 will apply. Management recognise this and have agreed to action a recommendation to address this by the end of the year.
- 7.2 The wider improvement plans for the Highways Service are overseen by an Improvement Board that has been chaired by the Deputy Chief Executive. This Board oversees progress across a 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.
- 7.3 A review of the City Centre Review is underway. This aims to provide assurance over the governance arrangements in place to monitor delivery of the action plan agreed which covered the four key issues raised in the report 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. Fieldwork has been completed and will be reported shortly.

8 Procurement, Contracts and Commissioning

- 8.1 Internal Audit provided assurance over contract governance arrangements for Council framework agreements specifically in relation to roles and responsibilities, compliance with framework terms and oversight and monitoring. Three frameworks were used as the basis for the assurance work: Taxis; Highways (see 7.1); and Financial Services. An overall report was issued with limited assurance which captures the themes emerging from this work and from previous audit activities. Recommendations have been made to drive improvements which 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. The social value aspect of contracts and in particular the arrangements for coordination, monitoring and oversight of social value commitments, has been the focus of a further audit that will be reported shortly and included in the next update to Committee.
- 8.2 Taxi Framework: We provided limited assurance over governance arrangements to support the corporate taxi travel framework contract. This was due to the limited contract management activity undertaken and the subsequent risk to ensuring compliance with contract conditions and achievement of value for money. Management confirmed that this contract was not prioritised for scrutiny at a detailed level because of the relative low value of spend. However, they accepted that there was a need to better demonstrate control over use and delivery of the contract to ensure that financial risks were effectively controlled.
- 8.3 Financial Services Framework: The level of monitoring over this framework carried out by the business was light touch as it was based primarily around the allocation of work and not the quality of services received. As a result of this limited view we could provide only a moderate level of assurance over the monitoring and assurance of this framework. We made a number of recommendations to mitigate risks around the allocation of work, monitoring quality and performance of the framework, insurance cover, and social value which were agreed by management who are working towards solutions.
- 8.4 We have provided advice to the Integrated Commissioning Team to assist 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. As Internal Audit we 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. We were also invited to be involved in a working group set up to assist in the retender of the social transport framework. During the quarter we have also provided some summary observations on the proposed performance framework and governance structure for the leisure facilities contract and plan to undertake further work on this once this has had sufficient time to develop and embed.

9 Counter-Fraud and Investigations

- 9.1 Counter fraud work continued through a programme of proactive and reactive activity in line with the annual plan and as referrals were received. Details are provided in the

Annual Counter Fraud report. A summary of key activity in the quarter is as follows.

Proactive

- 9.2 Arrangements for 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 were completed. The training package has been included on the Council's e-learning platform and will be launched to all staff in quarter four.
- 9.3 The Council Counter Fraud Policies were refreshed to ensure that they remain relevant and up to date. A review by the whistleblowing charity Protect has confirmed that the policies remain fit for purpose, but they have made some helpful suggestions for improvements based on best practice. The revised suite of policies will be presented to Audit Committee for consideration in March.
- 9.4 Progress was made on a Counter Fraud communication plan aimed at launching refreshed Counter Fraud policies and Council-wide promotion of the on line training and the free independent confidential advice telephone line for employees.

Reactive

- 9.5 Internal Audit continued to address reported allegations of fraud or wrongdoing following risk assessment and consideration of appropriate action in line with the agreed policy and procedures. Steps to investigate were taken by Internal Audit, service management or through the application of other policies, such as corporate complaints or dispute resolution, as appropriate. In all cases Internal Audit retained an overview of the approach and outcome of investigations. The two main areas of casework and key issues arising in the period are set out below.

Corporate Cases

- 9.6 Internal Audit received 16 referrals of potential corporate fraud, theft or other irregularity in the third quarter; seven of these were considered whistleblowing allegations made either anonymously or from a named source and were handled under the Council's Whistleblowing Policy and Procedure. These were triaged, assigned and are being progressed.
- 9.7 As reported in quarter two a number of high risk cases were complex and have required a significant amount of audit resource to enable appropriate action to be taken. The nature of work remained similar to previous quarters and include concerns raised in respect of employee compliance with organisational policies and procedures; issues raised in respect of financial governance and decision making in schools; staff conduct and behaviours; use of contracts and contractors; and relationships with and activities of third party organisations. Progress updates and final reports are issued to the Chief Executive, City Solicitor, City Treasurer and Director of HROD and summary details will be provided to Audit Committee in 2019 as part of the Annual Counter Fraud Report.

Council Tax Reduction Scheme, Housing Tenancy and Right to Buy

- 9.8 A total of 45 new referrals of fraud and irregularity in relation to Council Tax Support, Housing Tenancy Fraud and Right to Buy application fraud were received during the period October to December 2018.
- 9.9 In terms of outcomes the overall deliverables for the year to date:
- The Council is able to recover £13,000 of Council Tax Reduction overpayments.
 - £19,000 of wider public sector benefits, including Council Tax Benefit, Single Adult Discount, Housing Benefit and Discretionary Housing Payments has been identified as recoverable.
 - Investigation work has prevented four fraudulent applications for Right-to-Buy discount with a total value of £247,000 from being awarded.
 - Keys have been returned in relation to three properties, where it was alleged tenants were illegally subletting property. Notional value of savings is £108,000.
- 9.10 One of the right to buy cases progressed to prosecution in Manchester Crown Court in November where the applicant pled guilty to a charge of seeking to fraudulently obtain a £20k discount. The applicant received a six month suspended sentence with 200 hours community service. The summary of this case was issued as a press release but was not picked up by press or media. Nonetheless we will continue to draft press releases on such cases to highlight the actions that Council will take to investigate and prosecute offenders whose activities impact on the Council's ability to offer services and homes to Manchester residents.

10 Recommendation Implementation

- 10.1 Internal Audit monitored implementation of recommendations, engaging with managers to assess exposure to risk in areas where actions remained outstanding and to explore options for mitigation of risk. Overdue recommendations are reported in more detail to Strategic Directors and Executive Members for consideration at six and nine months overdue as necessary. A separate report to Audit Committee provides details of the progress and actions to implement overdue high priority recommendations
- 10.2 The number of critical, major or significant priority recommendations fully implemented was 64% with a further 17% partially implemented. This is an increase on the last quarter and demonstrates the ongoing commitment from management to addressing areas of exposure to risk. The details of progress and areas of challenge to effective implementation are contained in the recommendation report.
- 10.3 The figures below show the total number of recommendations due for implementation and status of those recommendations at the end of December 2018 based on information and evidence at that time. There are a larger number of recommendations outstanding than in July but we can report that progress continues to be made and managers are generally engaged in the implementation process.

Critical, Major or Significant Priority Recommendations by Directorate

| Directorate | Number | Implemented | Partially Implemented | Referred Back to the Business | Outstanding |
|-----------------------|------------|-------------|-----------------------|-------------------------------|-------------|
| Corporate Core | 43 | 30 | 3 | 5 | 5 |
| Children's Services | 19 | 11 | 3 | 0 | 5 |
| Adult Services | 20 | 12 | 6 | 0 | 2 |
| Growth/Neighbourhoods | 26 | 16 | 6 | 0 | 4 |
| Total | 108 | 69 | 18 | 5 | 16 |
| | | 64% | 17% | 4% | 15% |

11. Recommendation

- 11.1 Members are requested to consider and comment on the Internal Audit Assurance Progress Report to 31 December 2018.