

**Manchester City Council
Report for Information**

Report to: Audit Committee - 30 July 2019

Subject: Internal Audit Assurance Report 2019/20

Report of: Deputy Chief Executive and 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 June 2019.

Recommendations

Members are requested to consider and comment on the Internal Audit Assurance Progress Report to 30 June 2019.

Wards Affected: All

Contact Officers:

Carol Culley
Deputy Chief Executive and City Treasurer 0161 234 3506
E-mail carol.culley@manchester.gov.uk

Tom Powell
Head of Internal Audit and Risk Management 0161 234 5273
E-mail t.powell@manchester.gov.uk

Background documents (available for public inspection):

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

- Internal Audit Plan 2019/20 (March 2019)
- Outstanding Audit Recommendations Report (February 2019 and 30 July 2019)
- Internal Audit Outturn Report (June 2019)
- Internal Audit Assurance Report April to June 2019

1 Introduction

- 1.1 This report provides a summary of the work of the Internal Audit Section from April to June 2019 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	2018/19 Brought Forward	2019/20 Audit Plan Outputs	Additional Items
Final Report	14	5	1
Draft Report	2	2	
Fieldwork Completed	4	4	
Fieldwork Started	1	7	
Planning		15	
Not started		69	
Cancelled / Deferred		0	
Totals	21	102	1

- 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 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. The number of total expected outputs will rise as the blocks of audit time assigned to areas of risk including the Our Town Hall Project and Schools Financial Health Checks are broken down to assignment level in line with plans and where contingency resource is allocated to additional work.
- 2.3 The table includes corporate counter fraud investigations but does not include all casework. The key focus of corporate fraud and investigation work is summarised in section nine however details and outturn is reported in the annual fraud report which will be presented to Audit Committee in September 2019.
- 2.4 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**.

2.5 The Internal Audit service has changed aspects of our approach for 2019/20. Some of these changes are unlikely to be evident to Audit Committee but they do include changes that will be reflected in the style and content of reports. Key changes are as follows:

- Redesign of Executive Summaries and shorter audit reports. The Executive summaries from 2019/20 audit opinion reports will be appended to Audit Committee reports. Over 2019/20 the detailed narrative of Audit Committee reports will reduce with a greater focus on key areas of key assurance and risk.
- Copies of all final audit reports being issued to the relevant Executive Member one week after distribution to officers.
- Defining an Accountable Officer (SMT Lead) and Responsible Officer (Lead for the service/system/strategy being audited).
- Reduction in audit assurance ratings from five (Full to No assurance) to four (Substantial, Reasonable, Limited, No). For this report it means that there are audits with both of these ratings shown on the status report, in relation to brought forward work finished in the quarter and the new audit work delivered for 2019/20.
- Introduction of an 'Impact' assessment. This is the auditor assessment of criticality of the strategy / service / system being audited to the achievement of the Council's priorities and discharge of functions and duties in the following areas:
 - Strategic Objectives
 - Safety and Welfare
 - Corporate Risk
 - Organisational Change
 - Key Partnerships
 - Finance and Resources
 - Key Service Fulfilment
 - Statutory Duty

2.6 Executive Summaries for audit opinion work from the 2019/20 audit plan are provided for information at Appendix Two in line with the new process. Appendix Three confirms for context the basis of assessment of audit opinions, recommendation priorities and impacts.

2.7 The key issues and assurances arising from audit work in the quarter are summarised below.

3 Adult Services

3.1 An audit of Deprivation of Liberty Safeguards (DoLS) provided limited assurance that the Council was appropriately discharging its responsibilities for DoLS Urgent and Standard Authorisations with issues considered to be major risks. DoLS assessments were often completed significantly outside the timescales required by statute and although referrals were screened and prioritized for allocation there were significant delays in assessments for low priority cases. In addition there was an absence of DoLS reviews being undertaken to ensure that decisions taken continued to remain valid and appropriate.

- 3.2 The significant increase in numbers of DoLS cases and difficulties in meeting statutory deadlines is not unique to Manchester. An annual report regarding DoLS issued by the Health and Social Care Information Centre covering 2017/18 confirmed that the average duration between receiving an application and assessment completion in England was 138 days. In Manchester the average time from receipt to assessment and subsequent authorisation was 130 days. To comply with legislation the DoLS assessment should be completed within 21 days but there is no legal timescale for authorisation. Management had requested the audit and are well aware of the issues in this service area which are integrated in plans for action as part of the adults improvement plan.
- 3.3 Floating Support – Support to Homeless Citizens in Temporary (Dispersed) Accommodation audit work resulted in limited assurance. The main issues preventing a higher assurance were the lack of shared and consistent processes and inconsistency in the understanding and discharge of roles and responsibilities. Practices adopted across the floating support teams were varied and inconsistent leading to significant differences in the support provided to citizens. We note that these findings are consistent with a Service that has grown and evolved rapidly to respond to increasing demand. Management accepted the recommendations and are implementing actions to improve the arrangements. We met with the new Director for Homelessness and will explore options for further audit support for the coming year with him based on his initial assessment of risks.

4 Children's Services

- 4.1 The Assessed and Supported Year in Employment (AYSE) process was given moderate assurance. The overall process was well designed however the tracker system for monitoring ASYE progress had not been kept up to date and was not being used to report progress to management. This would have highlighted instances where key milestones were missed and progress was significantly delayed; and in turn would help direct timely intervention from Social Work Consultants.
- 4.2 A draft report has been issued providing moderate assurance over progress made in delivering the Post Ofsted Inspection Action Plan. It has, as intended, provided a good framework to ensure focus and monitoring of continuing improvement in the areas identified in the 2017 Ofsted Inspection report. Significant progress has been made in implementing recommendations and embedding practice, however areas remain where progress to implementation of agreed actions is ongoing. The reporting format only allowed for actions to be marked as "complete" or "incomplete" and as a result, based on our review of progress, we considered that the reported position had been overstated in some areas and it would be clearer to report areas where active plans remain in place and where work is ongoing work. We recommended that a category of partially implemented is added to the Plan and that consideration is given to RAG or percentage rating to key recommendations to more clearly articulate that even where actions are not fully complete progress is positive, is being sustained and there are no significant concerns. It will also help highlight areas

where any blockers need to be addressed or where concerted effort or support is needed to enable actions can be completed in full.

5 Education and Schools

- 5.1 Procurement in Schools audit work resulted in moderate assurance following an assessment of the findings emerging from audit compliance checks. The arrangements were considered to be insufficient in a number of schools. Internal Audit consider that a root cause of the non-compliance identified was a lack of knowledge of some key personnel whose responsibilities were to either complete high value procurement exercises or challenge and support procurement exercises. Where non-compliance was found most schools could provide a rationale for actions taken but a number stated they were unaware or unclear about School Financial Regulations (SFR) requirements for tendering and did not seek the Council's advice despite this being a SFR requirement for high value purchases. A recommendation was made to the Schools Finance and Procurement teams to run workshops with stakeholders about procurement requirements and associated risks to understand how best to address this reported lack of understanding. In addition it was proposed that the Council reviewed its offer of procurement advice which could potentially be managed under a service level agreement (as a traded service offer).
- 5.2 Off Rolling of Pupils was given moderate assurance as key policies were in place to ensure the Local Authority's statutory duties were met and to assist Manchester schools in fulfilling their duties in removing pupil details from the attendance register. However schools were not routinely asked to submit leaver data to the Children Missing from Education (CME) team to allow cross checking against the CME team's records in order to provide additional assurance over the completeness of reporting. This increased the risk of pupils off-rolled being underreported and changes to the process to address this were agreed.
- 5.3 The traded Data Protection Officer (DPO) offer to schools has now been in operation for ten months with over 100 schools signed up to the offer in Manchester and Bolton. Compliance visits have commenced and the new team have been supported by some resource from the audit team managing this demand alongside existing commitments, albeit this has meant some slippage in the finalisation of some audit work and some adjustment to planned delivery dates. Schools continue to actively seek advice and guidance offered through the DPO service and the programme of compliance visits was carried out throughout the quarter which alongside training and awareness activity was the core focus of work.
- 5.4 As part of the revised approach to audit of schools the first of a planned series of health checks will be provided throughout the year to assess aspects of governance, risk and control. St Matthews RC High School was given limited assurance due to a range of issues with concerns about controls over income receipts at the Sports Centre and uncertainty over the School's budget position. The School has restructured their support staff arrangements and

have a new operational management team in place. The Council is monitoring the impacts of these changes and Internal Audit liaise closely with the Senior School Effectiveness Officer. A follow-up audit visit confirmed that significant progress had been made around confirming and agreeing the budget position but no action had yet been taken to address any of the issues relating to the Sports Centre and so the risk here remained high. We emphasised to management the importance of introducing appropriate systems and controls as a matter of priority despite the longer term plan to employ a third party to run the sports centre.

- 5.5 Manley Park was given a moderate opinion based on the need for formalise a range of policies and procedures and enhance segregation of duties, however Internal Audit was encouraged by the developed of a detailed action plan and the appointment of a new Business Manager to progress required changes. Some actions had already been implemented when the final report was issued and if this momentum is maintained then the level of risk noted in the audit will be much reduced.

6 Corporate Core

- 6.1 An audit of Our Manchester Voluntary & Community Sector Grants – Outcome Monitoring resulted in moderate assurance confirming that regular and complete monitoring information was being received from grant recipients, with identified issues being recorded. It was less clear how these were fed back to liaison officers and then followed up with organisations and how consistent the support provided to VCO partners was. We made some recommendations to improve the consistency of recording contact with organisations, actions taken and the support provided to recipients which should address this matter.
- 6.2 We agreed with managers to focus our GDPR – Post Implementation Review on retention and disposal of personal data and to assess progress on implementation of the principles set out in the Regulations. We provided substantial assurance that the administration of GDPR was compliant with the documented and established procedures, and that data types recorded in the Information Asset Register (IAR) could be traced to the service areas where they are held. The main issue a preventing higher level of assurance was the lack of robust systems to monitor and take action when retention periods had been reached. For example there were two cases where the IAR required updating as data had been deleted from Council records and in two other areas it was noted it was noted that data had been retained for ten years, rather than six years as per professional body guidance. Actions in response to this report will be overseen by the Corporate Information Assurance and Risk Group and the Data Protection Officer.
- 6.3 Council Risk Governance Assurance was provided with substantial assurance and we confirmed that risk management activities generally aligned with the aims of the corporate risk strategy. Risk literacy of senior officers had developed considerably over the past few years and there is generally a culture of risk awareness as a senior level. However, the prominence of risk management discussions at Service and Directorate Management Team

(DMT) level was inconsistent, and the relationship between the DMT risk registers and Corporate Risk Register was less clear. Management accept that more work is required to strengthen the approach including seeking consistency in risk review and improving the mechanism for cascading the principles of risk management through the organisation as part of a golden thread. Best practice was seen in several areas where management discussion was led by assessment of risk and where activities were proactive rather than reactive - this included for example Revenue and Benefits and Legal Services teams.

- 6.4 The audit of Our Town Hall (OTH) – Allocation of Work Packages focused on the Mechanical Engineering and Plumbing contract, as the first significant work package to be let by the management contractor (Lendlease) on the Project. Due to the size and estimated value of the package (approximately £39m). Given the scale of the project Internal Audit agreed with the OTH Project Director to review the selection process applied to identify contractors to tender for this works package and provided a substantial assurance opinion over the design and operation of this process.
- 6.5 Core Systems: Revenue Budget Monitoring was provided with substantial assurance in relation to the operation of the Council's revenue budget monitoring procedures. Internal Audit considered the system to be well controlled and operating as intended. The core processes in place for revenue budget monitoring were consistent and consistently applied across all directorates. The introduction of the Integrated Monitoring Report (IMR) has provided consistency and the opportunity for comparison between directorates not only from a financial perspective but also in relation to operational and performance issues.
- 6.6 For Core Systems: Payments (SAP) we concluded that the current software solution and allocation of day to day roles supported the efficient processing of payments via BACS. However, we advised management to review the agreed assignment of responsibilities in the area, to confirm that it continues to best meet business need
- 6.7 For Greater Manchester Pension Fund (GMPF) Internal Audit obtained sufficient assurance over the effective operation of procedures and confirmed this was in compliance the requirements of the Fund. This enabled a positive response be provided back to the GMPF as part of their required assurance arrangements

7 Neighbourhoods and Growth and Development

- 7.1 In Highways Framework Contracts: Award of Work, Monitoring of Payments and Performance we provided a moderate assurance opinion over how work was awarded, payments checked and performance monitored for five framework agreements and contracts reviewed. A number of improvements were evident since previous audit work in 2017, in particular for contract Q20286 for small patching works (potholes) which had seen a significant decrease in additional work claims and in the number of jobs rejected due to

quality issues. All of the frameworks and contracts reviewed had a clearly defined process in place for the award of work. Areas for further improvement within the five framework contracts include documented evidence of approval for any deviations from the agreed processes for allocation of work; quality monitoring documentation; advance agreement and recording of changes to orders; and verification of payments in advance of payment.

- 7.2 On MSIRR (Regent Road) Payment Requests Internal Audit reviewed the first two applications for payment (totalling £1.85m) on the scheme will assess the completeness, accuracy and validity of the third application in July. We agreed with the deductions that had been made to the payment requested and made recommendations designed to ensure greater clarity over allowable contract costs and the evidence required to support claims for attendance and hours worked by contractors and subcontractors. Internal Audit will complete further work in relation to the third payment in advance of the deadline of 18 July and will complete an audit of the final payment at project completion.
- 7.3 Northwards Housing Limited (Northwards) undertake a programme of capital works over the 13,000 properties in their management area on behalf of the Council. Northwards manage the delivery of the work undertaken; including budget setting, preparing specifications, evaluating proposals, preparing contract information, managing costs, and ensuring delivery. Internal Audit reviewed Northwards Capital Project Management and provided substantial assurance that Northwards were effectively managing the projects reviewed. In particular we were assured that realistic budgets were set; costs were monitored and managed throughout the project lifespan; and that the specified and approved work was delivered. We were unable to obtain signed copies of contracts for any of the projects reviewed, either from Northwards, Housing or City Solicitors and have recommended that the Head of Housing explores this issue with the City Solicitor so it can be resolved.

8 Procurement, Contracts and Commissioning

- 8.1 Internal Audit examined the arrangements for prevention and detection of procurement fraud using data from the finance system (SAP) and the procurement portal (Chest). This resulted in a moderate assurance over the Council's arrangements to identify potential fraudulent activity within the procurement tendering process. This work did not find any evidence or indication of fraud from but through data analysis we did identify areas for improvement in reporting and in utilising data, particularly from the Chest system, to better inform management oversight and decision making. We were assured that there was oversight of individual procurement activity however no overall reviews were undertaken to identify and monitor patterns of procurement activity in specific business areas which could indicate concerns or inform advice or actions. As monitoring of multiple tender activity and single bidders can highlight areas of risk and useful information can be obtained from monitoring of supplier success rates, opt out reasons and the length of tender response windows we made recommendations to strengthen proactive controls.

- 8.2 A follow up audit of the Highways Framework TC886 from 2017/2018 was carried out as the original audit had resulted in a limited opinion. The review demonstrated implementation action had been taken to strengthen governance arrangements including value for money aspects of contract award and we concluded that all agreed recommendations were implemented. We therefore concluded a reduction in the overall exposure to risk associated with the framework
- 8.3 Insurance Arrangements in Contracts was given limited assurance in 2018/19 and a follow up audit concluded that the recommendations made had been implemented. It was confirmed that the Integrated Commissioning team have taken action to amend and clarify the standard Council contract documents; develop guidance including checklists to clarify risks and roles around insurance; and develop training for appropriate officers.

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 which is due to the Audit Committee in September 2019. A summary of key activity in the quarter is as follows:

Proactive

- 9.2 Between February and May 2019 the Internal Audit Counter Fraud and Irregularity Team took part in the Cabinet Office / HMRC Pilot trialling the use of additional data matching capability, and with colleagues in other departments 227 matches were reviewed. From this a total of 118 matches warranted further investigation and this work is ongoing. To date £49,500 of error in respect of care home fees has been detected and passed over to finance for recovery.
- 9.3 Joint working protocols have been established between the Department of Work and Pensions (DWP) and the Counter Fraud and Irregularity Team. This will help streamline the investigation process for both officers and the individual being investigated for cases that involve allegations of fraud in respect of both Council and DWP benefits.
- 9.4 The Team contributed to a pilot of the Public Service Management Training focused on Leadership and Ethics for staff Grade 10 and above. The purpose was to provide an overview on the links with whistleblowing and in particular roles and responsibilities for managers. Learning from this pilot has been reflected in an updated programme which will be rolled out in the summer of 2019.
- 9.5 Updated counter fraud policies were presented to Audit Committee for review in March. Following discussions with the Trade Unions a small number of amendments have been made to the Whistleblowing Policy and the Anti-Fraud Policy and have since been sent to the Chief Executive for approval.

Reactive

- 9.6 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

- 9.7 Internal Audit received 17 referrals of potential corporate fraud, theft or other irregularity in the first quarter of which three 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 in line with procedures.
- 9.8 The nature of investigation work remained similar to previous years and included concerns raised in respect of staff conduct and behaviours; employee compliance with procedures; and relationships with and activities of third party organisations. Progress updates and final reports are issued to the Chief Executive, City Solicitor, Deputy Chief Executive and 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

- 9.9 A total of 58 new referrals of fraud and irregularity in relation to Council Tax Support, Housing Tenancy Fraud and Right to Buy application fraud were received in the period. The service took steps to recover £16k of Council Tax Reduction overpayments and £108k of fraud has been prevented or detected where benefits accrue to the wider public sector such as DWP or housing providers.

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 71% with a further 20% partially implemented. This is above the target of 70% and a significantly higher level of implementation than in previous quarters. This positive position is a product of a number of

proactive steps including the ongoing commitment from management to addressing areas of exposure to risk and taking more timely actions to address recommendations where this has been feasible. A new system and process has also been developed that provides relevant managers with live access to the audit record of recommendations, enabling services to provide status updates on an ongoing basis and this has already had a positive impact in terms of client awareness and engagement.

- 10.3 The figures below show the total number of recommendations due for implementation and status of those recommendations at the end of June 2019 based on information and evidence at that time. We can report that progress continues to be made and managers are generally engaged in the implementation process. The details of progress and areas of challenge to effective implementation are contained in the recommendation report presented to Audit Committee in July 2019.

Critical, Major or Significant Priority Recommendations by Directorate

Directorate	Number	Implemented	Partially Implemented	Referred Back to the Business	Outstanding
Corporate Core	34	27	4	0	3
Children's Services	17	12	2	0	3
Adult Services	12	4	6	0	2
Growth & Development and Neighbourhoods	16	16	0	0	0
Total	83	59	16	0	8
		71%	20%	0	9%

11. Recommendation

- 11.1 Members are requested to consider and comment on the Internal Audit Assurance Progress Report to 30 June 2019.