

INTERNAL AUDIT REPORT APRIL 2009 TO MARCH 2010

1. Introduction

- 1.1 This report provides a summary outturn report of the work of the Internal Audit Section between April 2009 and March 2010. It describes delivery against the Section's Annual Audit Plan and includes resourcing information. The Head of Internal Audit's Annual Assurance Report submitted in March 2010 reported assurance outcomes. The first quarterly progress and assurance report for 2010/11, including an update on the implementation of recommendations, will be presented to the 25 June Audit Committee.

2. Basis for Delivery of the Audit Plan

- 2.1 Internal Audit establishment in 2009/10 was 26 excluding the Head of Internal Audit and Risk Management. The Section had an average of three vacancies during the year and six members of the team working reduced hours so available resources were 21.8 FTE. Four new staff were recruited in the year and one experienced Lead Auditor retired. A senior member of staff also returned from long term leave in January and in the interim a member of agency staff was recruited on a temporary basis to support delivery of the plan.
- 2.2 The audit plan for 2009/10 estimated a requirement of 3,622 audit days based on the risk assessment carried out to develop the audit programme. Actual time spent was 3,450 days. The difference is largely due to a long term sickness absence and a reduction in time bought in from external contractors. This plan was agreed with senior management and Audit Committee.
- 2.3 Further details on resourcing and key performance statistics are included in the Annual Review of the System of Internal Audit 2010/11 to be presented to Audit Committee in June 2010.

3. 2009/10 Audit Programme Delivery and Out-turn

- 3.1 A total of 182 final outputs were issued in the year against a KPI target of 140. A further 24 reports had been issued in draft at year end. The outputs included audit reports, management letters, FMSiS assessments and advice and support to management on service improvement. For some areas of the plan more than one output was produced as a result of the scoping of work or to address specific risks or developments.
- 3.2 Outputs included reports for two external clients; the Greater Manchester integrated Transport Authority and Patrol. This work is delivered under contract with each of these bodies.
- 3.3 Three audits planned for 2009/10 were not delivered in the year:



- MIP Strategy – deferred to 2010/11 as the approach to Council transformation changed fundamentally during the year. This work and audits of directorate Target Operating Models that are central to the transformation ambition of the Council form part of the 2010/11 plan.
 - Performance Strategy – whilst no audit output was issued Internal Audit have supported the ongoing development of the business planning and improvement frameworks throughout the year. Given changes to the performance and reporting framework during the year it was considered more appropriate to provide advice, guidance and support.
 - Sustainability Strategy – in planning this audit it became clear that it would more appropriate to audit sustainability within individual audit areas. This was addressed though work on Green City and will be considered further in audits of procurement and recycling in 2010/11.
- 3.4 Some work was on-going at year end with planned delivery into 2010/11. Completion of this work, together with work delivered in addition to that recorded on the Annual Plan such as requests from senior management, is shown in the tables below.
- 3.5 The following sections summarise, by directorate, audit status, opinion and key issues.












4. Children's Services

- 4.1 Children's Services needs to respond quickly to government priorities, legislation and service improvement objectives, demonstrated by the recent proposals for significant changes to the Council's approach to school improvement arising from the national, 21st Century Schools proposals. This makes it difficult to fully and consistently embed management arrangements at all levels and in all areas. Audit activity in the year demonstrated a clear strategic service direction with positive engagement with key partners, although the need for improvement was identified in operational delivery of actions to support delivery of priorities.
- 4.2 We audited the Council's approach to safeguarding children, including a compliance audit of casework management. The strategic direction was clearly defined and effective management and governance, including reporting and multi-agency involvement, supported delivery. There were concerns over the lack of evidence of current CRB checks for a significant number of staff to which management responded promptly. Risks remain based on the recent casework management audit where, as with Adult Services, we identified gaps in record keeping and a lack of evidence of key decisions and actions. We acknowledge that casework was migrated into a new system (MiCare) during the year and would expect compliance should improve. However, this is a significant concern which has been accepted by managers who are currently working to issue a quality monitoring framework and staff handbook by the end of June to help address some of the concerns raised in the audit.
- 4.3 Our audit of school attendance highlighted the need to further develop links between high level strategy objectives and operational activities. Despite the

work to date significant improvements in attendance rates had yet to be realised, resulting in a Corporate Area Assessment red flag. We were confident of a high capacity to improve, with the recent development of a project to drive improvement in a structured and co-ordinated way.

- 4.4 Our audit of the Contact Point project, a national database holding basic records for children up to 18, confirmed it is being successfully developed in Manchester in line with DCSF requirements. We identified a need to develop a plan to integrate the use of the database into standard business processes. As a result we provided only limited assurance but have been impressed by the subsequent work undertaken to address our reported concerns. DCSF require all Council's to submit an annual assurance opinion signed by the Director of Children's Services and Head of Internal Audit, confirming the adequacy and effectiveness of controls over access to Contact Point and work to support this assurance is included in the 2010/11 audit plan.
- 4.5 The development of Children's Trusts is being strongly driven nationally and we gave moderate assurance over the development of Manchester's arrangements. There was a clearly defined strategy, partner involvement at a senior level and defined city-wide and local governance arrangements. However, these arrangements had not been embedded as planned across the City leading to local inconsistency in understanding and application between Districts. There were also concerns over relationships and communications between the Children's Trust Leadership Team and Districts. Senior management recognised that arrangements had not been embedded and had taken positive steps to develop a Children's Trust change programme to improve priority areas, supported by a blueprint clarifying roles and responsibilities, structures and arrangements.
- 4.6 We provided moderate assurance over the effectiveness of governance arrangements to support delivery of the teenage conception strategy. There was a need for more formal arrangements and we were concerned that a key sub-group, for which Children's Services had lead responsibility, had not met regularly, did not include all key partners and did not report progress regularly to Children's Services Senior Management Team (CSSMT).
- 4.7 One of the key challenges for Children's Services in the year has been the roll out of the Manchester Academy model, with four secondary schools becoming academies. While the model is clear and there are strong relationships with each Academy we raised the need for sustainable arrangements to support these relationships and ensure appropriate partnership governance arrangements are in place.
- 4.8 The status, assurance opinion and 'capacity to improvement' assessment for the audits undertaken was as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Academies	Final	Moderate 	

























Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Childrens Trust Arrangements	Final	Moderate 	
Safeguarding Children	Final	Moderate 	
Contact Point	Final	Limited 	
Safeguarding Casework Management	Final	Limited 	
School Attendance	Final	Limited 	
Teenage Conception Strategy	Draft	Moderate 	Set at Final
Financial Management Standard in Schools	Draft	Management Letters	Management Letters
Education Redesign	Final	Consolidated into 21 st Century Schools Management Letter	
School Assurance Framework			
School Governance			

Schools





















- 4.9 Four schools that were to become Academies were amongst seven closing schools audited. We raised significant concerns around the readiness for closure and a lack of engagement with the Council, particularly over the control of assets and agreement of closing financial positions. These concerns were increased by subsequent audit work prior to closure which identified poor financial management decision making. We are working closely with Children's Services to ensure lessons learned are used to develop more robust processes. The impact of these improvements can be seen in the project management approach now used to manage closures however inherent risks remain and we consider it is essential that the Council sustains timely and effective communications with schools leading up to closure.
- 4.10 Other school audits continue to raise issues around governance. However the establishment of School Improvement Partners, School Effectiveness Officers, the Schools Finance Board and other internal arrangements has had a positive impact, improving internal communications, coordination and intelligence sharing to enable issues to be considered and addressed more effectively. Children's Services response to the Government White Paper "Your Child, Your Schools, Our Future", could impact fundamentally on school governance with the development of school partnerships under a single governing body. They could also see the approach to school effectiveness changing through the development of a significantly different relationship between schools and the Council. We will continue to work with Children's Services to provide assurance and support as proposals develop.

























































- 4.11 We completed external assessments of 52 primary schools and re-assessments of 13 secondary schools against the Financial Management Standard in Schools (FMSiS). Of the primary schools 37 met the Standard, 1 did not and the remaining assessments have yet to be finalised. Of those not finalised up to 10 Schools may not meet the Standard. Re-assessment decisions for secondary schools are being finalised.
- 4.12 47 primary schools on the 2009/10 audit plan were audited and we can give assurance that most schools understand and operate satisfactory systems of governance and financial management. While there is a need in many for some improvement, several required more fundamental development. Audits identified a consistent need for improvement in a number of areas. Findings included:
- Active governor challenge, scrutiny and decision-making were not always evident in key areas such as budget performance and review and approval of governance documents.
 - School Improvement Plans, deficit recovery plans and analyses of reserves were not completed consistently or at all in some schools.
 - Head Teacher involvement in budget setting, monitoring and reporting to governors was insufficient or could not be demonstrated.
 - Procurement rules were not fully understood or complied with.
 - Responsibilities were not separated sufficiently in such processes as the receipt of income, cash handling and banking.
 - Assets were not consistently well managed, including data assets.
- 4.13 Audits of 13 secondary schools have identified similar concerns. Particular concerns were noted in schools transferring to academies and we are continuing to engage with Education to address and manage these risks. We were also disappointed with management responses from three secondary schools to some high risk recommendations, which has led us to assess them as having a limited capacity to improve.
- 4.14 Internal Audit attends Schools Finance Board meetings at which concerns arising from audit activity are discussed along with any need for Council action to address cross-cutting issues or specific school issues. In addition, for all FMSiS assessments and audits we prepare a summary findings report for Education to help address common themes and concerns.
- 4.15 The assurance opinion and capacity to improve recorded below are for the school and do not necessarily reflect significant risks to the Council.















Secondary School Audits

School	Assurance Opinion	Capacity to Improve	School	Assurance Opinion	Capacity to Improve
Chorlton High School	Moderate 		Melland High School	Moderate 	
King David High School	Limited 		Newall Green High School	Substantial 	
Parrs Wood High School	Moderate 		Plant Hill Arts College	Limited 	
St Peters High School	Substantial 		Abraham Moss High School	Moderate 	
St Matthews RC High School	Moderate 		Our Lady's RC High School	Substantial 	Draft
Cedar Mount High School	Moderate 		Wright Robinson Sports	Limited 	Draft
Burnage High School	Moderate 				



Primary School Audits



School	Assurance Opinion	Capacity to Improve	School	Assurance Opinion	Capacity to Improve
Abbot Community Primary School	Moderate 		Holy Trinity CE Primary School	Moderate 	
Ashbury Meadow Community	Moderate 		Lily Lane Infants School	Moderate 	
CE School of the Resurrection	Substantial 		Lily Lane Junior School	Moderate 	
Cavendish Community Primary School	Moderate 		Martenscroft Nursery	Moderate 	
Chapel Street Primary School	Moderate 		Mauldeth Road Primary School	Moderate 	







School	Assurance Opinion	Capacity to Improve	School	Assurance Opinion	Capacity to Improve
Cheetwood Primary School	Moderate 		Northdenden Community School	Moderate 	
Chorlton CE Primary School	Substantial 		Old Moat Community Primary	Moderate 	
Crowcroft Park Primary	Moderate 		Rackhouse Primary School	Moderate 	
Didsbury CE Primary School	Substantial 		Rodney House School	Substantial 	
Sacred Heart RC Primary School	Moderate 		St Edmunds RC Primary School	Substantial 	
Sandilands Primary School	Moderate 		St James CE Primary Gorton	Substantial 	
Saviour CE Primary School	Limited 		St John Fisher & Thomas More	Substantial 	
Seymour Road Primary School	Substantial 		St Wilfrids RC Primary School	Moderate 	
St Agnes CE Primary School	Moderate 		St Willibrods RC Primary School	Moderate 	
St Aidens RC Primary School	Substantial 		St Elizabeths RC Primary School	Moderate 	
St Andrews CE Primary School	Moderate 		Varna Street Primary School	Substantial 	
St Annes RC Primary School Ancoats	Moderate 		Broadhurst Primary School	Moderate 	
St Barnabas Primary School	Substantial 		St Annes RC Primary School	Substantial 	
Aspinall Primary School	Moderate 		Park View Community Primary School	Moderate 	





School	Assurance Opinion	Capacity to Improve	School	Assurance Opinion	Capacity to Improve
St Patricks RC Primary School	Moderate 		St Malachys Primary School	Moderate 	
St Chads Primary School	Moderate 		St Phillips Primary School	Moderate 	
St Richards RC Primary School	Moderate 		King David Infant School	Moderate 	
St Johns CoE Primary School	Moderate 				

Closing Schools / Schools Moving to Academies

School	Assurance Opinion	Capacity to Improve
St Edwards RC	Substantial 	









School	Assurance Opinion	Capacity to Improve
Bishops Bilborrow Memorial RC	Limited 	

School	Assurance Opinion	Capacity to Improve
North Manchester High School	Moderate 	
Brookway High	Limited 	
Plant Hill High	Limited 	

School	Assurance Opinion	Capacity to Improve
North Manchester High School for Parklands High	Limited 	
	Limited 	

5. Directorate for Adults



- 5.1 The moderate assurance opinion over arrangements for the safekeeping of personal monies on behalf of customers reflected the need for better controls, including a formal management assurance programme, to ensure compliance with procedure and consistency of approach. This work was undertaken in response to identified fraud risks and continues to be an area of significant risk in terms of finance and reputation for the Council and further pro-active anti-fraud work has been included in the 2010/11 audit plan.
- 5.2 We provided substantial assurance over vetting and barring arrangements in place within the Manchester Safeguarding Adults Board, that contributed to the safeguarding of vulnerable adults. A robust framework was in place within the Directorate to ensure Council employees were appropriately vetted.
- 5.3 Audits of Safeguarding Adults (Casework Management), Financial Controls of Cash Individual Budgets and Manchester Learning Disability Partnership (MLDP) - Placements identified a number of common areas for improvement. There were significant omissions within Micare in recording activity that had taken place. This emphasised the need for management to establish mechanisms for obtaining assurance over compliance with procedure and to promote standards of consistency across the Service with regard to record keeping and evidencing of decisions. We have since contributed to a series of management briefings and training courses held by the Head of Safeguarding for District Managers which addressed the need for completeness of records. Further work on casework management and individual budgets is planned for 2010/11.
- 5.4 A review of documentation relating to tender exercises for the Manchester Learning Disability Partnership resulted in the issue of a management letter recommending the introduction of a secondary review by an individual independent of the scoring process.
- 5.5 The status, assurance opinion and 'capacity to improvement' assessment for the audits undertaken was as follows.








Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Cash Handling Procedures	Final	Moderate 	
Safeguarding - Vetting and Barring (Recruitment)	Final	Substantial 	
Safeguarding Adults – Casework Management	Final	Limited 	Management Letter
Financial Controls of Cash Individual Budgets	Final	Limited 	
Placements (MLDP)	Draft	Limited 	TBC
MDLP Commissioning Audit – Procurement Findings	Final	N/A	Management Letter

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Commissioning Framework	Awaiting Issue	TBC	TBC

6. Neighbourhood Services

- 6.1 We provided substantial assurance over the Council's strategic and operational response to swine flu and preparations to execute business continuity plans within its critical services. Roles and responsibilities had been clearly defined, linked with required borough/sub-regional structures and allocated to facilitate the development of the response plan. Management information was available to support decision making and plans with regard to critical services had been appropriately tested. We have provided advice and support during the year on the development of a revised Business Impact Analysis programme.
- 6.2 We provided moderate assurance over the effectiveness of controls and procedures over the issue of Penalty Charge Notices (PCNs) for bus lane contraventions. Our principal concern was that, despite public statements to the contrary, the Vehicle Certification Agency had not certified all equipment for use to issue PCNs at the appropriate time. All cameras at the time of the audit were correctly certified and further public clarification was released. Work is required to develop a management assurance framework to provide and evidence management checks over the operation of the CCTV service.
- 6.3 There has been a lack of activity in managing performance against the Waste and Recycling contract held with EnterpriseManchester, resulting in a limited assurance opinion. Whilst efforts to date had focused on the development of recycling services, action is now being taken to address the need for an effective quality assurance and contracting monitoring process.
- 6.4 Overall we can provide moderate assurance over the effectiveness of activity to develop and embed the Council's strategic approach to commissioning. We supported the establishment of the Strategic Commissioning Group to take responsibility for facilitating and directing the Council's activity and the development of the Manchester Model. Senior management changes at the end of 2009 had an adverse impact on the Group's activity, however progress has been made during 2010 and work to develop and embed the Council's approach to integrated commissioning with partners is ongoing.
- 6.5 The status, assurance opinion and 'capacity to improvement' assessment for the audits undertaken was as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
CCTV Bus Lane Enforcement (replaced Environmental Health Licensing)	Final	Moderate 	

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Waste Management: Contract Performance Indicators	Final	Limited 	
Green City Projects	Final	Substantial 	
Business Continuity Planning – Swine Flu	Final	Substantial 	Management Letter
Business Continuity Planning – Service Response to Swine Flu	Final	Substantial 	Management Letter
Strategy Audit – Commissioning	Final	Moderate 	Management Letter
Green City Strategy	Final	Management Letter	Management Letter
Green City Strategy – Review of Governance Arrangements	Final	Management Letter	Management Letter
Events Management	Awaiting Issue	TBC	TBC
Business Continuity – Business Impact Analysis	Advice, guidance and support		























7. Corporate Services



- 7.1 A significant proportion of the focus of Internal Audit's work in Corporate Services related to audits of the core financial systems. The Internal Audit approach to financial systems reviews involved an annual programme comprising full systems and compliance reviews. Internal Audit has worked in liaison with the external auditor, Grant Thornton, to agree the key controls within the Council's core financial systems. Eight areas were selected for compliance audit and four for full systems audit in the year and work is complete on all the core financial systems for 2009/10. This has been reviewed by Grant Thornton, as part of their assurance work and the initial feedback has been very positive, with complete reliance being able to be placed on the work we had carried out.
- 7.2 We have been able to give a substantial assurance opinion on nine out of the twelve core systems, confirming controls are operating effectively and any recommendations for improvement are moderate. The moderate assurance we have given on debtors is to reflect the lack of progress on implementing previously agreed recommendations and the absence of compensating controls. In particular a lack of the completion of a debt recovery policy, completion of detailed procedures notes, progression of debt recovery arrangements in accordance with Dunning schedule procedures, development of performance management information and clarity over supporting

- information to support debt write-offs. This has now progressed and a Miscellaneous Debt Collection Policy and Process for dealing with Bad Debt, was issued by the Head of Financial Management on 10 May 2010. We have also recognised the fact that action to improve the timeliness of invoices is not completely within the control of the Finance Shared Service Centre (FSSC).
- 7.3 The moderate assurance opinion on the housing benefits audit is to reflect that in October 2009 management identified and acknowledged a control issue in respect of access to the database that supports the Academy application which is used for recording and processing benefits data. This is the subject of ongoing review with the system supplier and until such time as this issue is resolved there could be a risk to the integrity of underlying system data.
- 7.4 With fixed assets we issued a management letter, recognising many of the amendments required to ensure accurate figures, such as depreciation, disposals and impairments, are completed annually at year-end. This means that there is little time for an extensive internal audit to be carried out before the finalisation of the accounts, which are then subject to review by external audit. We focused our work on additions to the asset register. Based on this work, we did not identify any issues affecting the asset values proposed for incorporation into the accounts.
- 7.5 We were also only able to give a medium capacity to improve for cash and creditors; this is to reflect the move to One First Street for the cashiering function and the uncertainty over the actual controls that will be in place following that move. We have agreed with the Operations Manager of Service to Cash to carry out the 2010/11 audit of the cash system and consequently the cashiering function within a few weeks of their move to One First Street. With creditors the lack of certainty over the progress of a change request to improve the controls over access has impacted on the capacity to improve.
- 7.6 With the audit of main accounting / general ledger a number of the reconciliations were not up to date. We agreed with the planned escalation of management action on this and have been pleased to be able to confirm during our recent housing benefits compliance audit that these reconciliations have now been brought up to date.
- 7.7 With recruitment compliance, we have given moderate insurance but a high capacity to improve. This is to recognise that the Council expects managers to be responsible for the recruitment of their own staff but the lack of assurance being provided to the Personnel Service Centre and evidence of non-compliance from our testing prevents the provision of any higher level of assurance. This is one of the areas that we are expecting to be addressed as part of the fundamental restructure of the Council's Personnel and Organisational Development functions during 2010/11.
- 7.8 The key area for change in respect of financial accounting in 2009/10 was the need to ensure the annual accounts are compliant with International Finance Reporting Standards (IFRS). We audited preparations for IFRS to ensure the

Council was well placed to demonstrate compliance. We have taken positive assurance at the progress made during the year based on review of the project plan, regular liaison with the Head of Financial Accountancy, the work of external audit and a review of the Council's progress which was part of a larger national review carried out on behalf of the Audit Commission by Deloitte.

- 7.9 Apart from the exceptions noted above the core systems have proved to have good controls in place, which our transaction testing has confirmed. There is always room for system improvements and have been pleased to recognise that were we have identified areas for improvement very often there has been a planned management action.
- 7.10 Going forward the majority of the staff appointments within the finance Service Improvement Project (SIP) are complete and we are confident that staff capacity and capability should now build.
- 7.11 The status, assurance opinion and 'capacity to improvement' assessment for the audits undertaken was as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
People Strategy	Final	Moderate 	
Payroll	Final	Substantial 	
Creditors	Final	Substantial 	
Debtors	Final	Moderate 	
Procurement	Final	Substantial 	
Revenue Budget Monitoring	Final	Substantial 	
Cash Receipting / Income	Final	Substantial 	
Treasury Management	Final	Substantial 	
Benefits	Final	Moderate 	
Council Tax	Final	Substantial 	
Business Rates	Final	Substantial 	

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Main Accounting / General Ledger	Final	Substantial 	
Revenue Budget Setting	Final	Substantial 	
Council Tax Exemptions and Discounts	Final	Substantial 	
North West Construction Hub (Framework Contracts)	Final	Moderate 	
Obtaining and Managing External Funding	Final	Moderate 	
Compliance Recruitment	Final	Moderate 	
IFRS	Final	Substantial 	Management Letter
Fixed Assets	Final	N/A	Management Letter
Final Accounts 2008/09	Final	N/A	Management Letter
Grant Certifications	Final	Management Letter	Management Letter
Town Hall Complex (Decant)	Final	Management Letter	Management Letter
Town Hall Complex (Governance and Contracts)	Advice, Guidance and Support		








8. Chief Executive

Governance and Performance

- 8.1 We audited compliance with the Freedom of Information Act (FoI) and the Data Protection Act (DPA). We noted adequate levels of expertise in directorates, supported by Democratic Services, resulting in a high quality of response to FoI requests. The ability to maintain standards may be adversely impacted by resource constraints and there was some lack of compliance with statutory response deadlines. DPA requests were generally responded to in a timely manner and to an appropriate standard although there were concerns that in one or two cases criteria for confirming identity was not followed.
- 8.2 Our audit of compliance with updated gifts and hospitality guidance found a mixed picture of compliance which should be addressed by Democratic

Service's planned action to co-ordinate and review annual self-certification returns.

- 8.3 In conjunction with Corporate Performance we developed a data quality peer review audit programme and carried out testing on the highest risk national indicators to test compliance with Council standards. We established that there was a widespread understanding of, and compliance with, standards. Risks arising from data supplied by third parties were being addressed. We also audited the application of Local Area Agreement (LAA) Level Four indicators and found a mixed picture of their adoption. We recommended that consideration be given to reviewing the need for these indicators and this will be included in the LAA refresh later in the year.
- 8.4 Audits of ten significant partnerships were undertaken by combining individual Annual Plan audits of partnership governance, added value, stakeholder engagement and trusts to provide an opinion on partnership governance arrangements. The nature and quality of governance varied but we confirmed Corporate Performance's partnership risk assessment and provided assurance over compliance with the Council's Partnership Governance Framework.
- 8.5 Three business unit pilot audits were planned: MEDC (now Highways Services), Libraries and Children's Services Districts. Due to the Town Hall Extension decant the Libraries audit was deferred and replaced with an audit of the Capital Programme Group. The Childrens Services District audit was replaced with an audit of the Service Improvement Unit due to timing issues and requests from management. These three audits were scheduled for delivery late in the year and whilst fieldwork has been completed and we finalising how best to report our findings for these new type of audit.
- 8.6 The status, assurance opinion and 'capacity to improvement' assessment for the audits undertaken was as follows.

Audit Area	Status	Opinion	Direction of travel
LAA Level 4 Indicators	Final	Moderate 	
Data Quality	Final	Moderate 	
Gifts and Hospitality	Draft	Moderate 	TBC
Compliance with FoIA	Draft	Substantial 	TBC
Compliance with the DPA	Draft	Substantial 	TBC
Commissioning Strategy	Final	Management Letter	Management Letter
Partnership Governance	Awaiting	TBC	TBC















	issue		
Business Unit Audits: <ul style="list-style-type: none"> • Capital Programme Division • Highways Services • Safeguarding Improvement Unit 	Awaiting issue	TBC	TBC
Annual Governance Statement – Assessment Against Code of Corporate Governance	Final	Management Letter	Management Letter
Business Planning	Advice, guidance and support on development of performance and improvement frameworks.		

Regeneration

- 8.7 Several audits covered areas where the Council works with other Greater Manchester authorities to deliver facilities and services. We highlighted the need for clarity of roles and responsibilities with partners, within partnerships and within the Council, supported by appropriate management information and planning. These improvements should maximise the positive opportunities presented by joint working and ensure that risks to the delivery of objectives are effectively managed. We audited the delivery strategy and governance arrangements in place to manage the Council's role as Accountable Body for Greater Manchester Housing Growth Point. Programme management included an effective application, appraisal and approval process and progress monitoring. Risks were minimised through the establishment of grant agreements with delivery partners.
- 8.8 We provided moderate assurance over arrangements to manage and monitor the Council's contribution towards traffic management and congestion targets, key elements in the Greater Manchester Local Transport Plan 2. There were examples of effective joined up working with other Greater Manchester authorities and congestion management was treated as a priority area. Development of a local plan setting out priorities, objectives and local performance indicators could help set the Transport Plan 2 in a local context and engage the public and stakeholders. Risks to the Council from Metrolink Phase 3a were managed moderately well. Lack of funding to fill a key post meant appropriate resources, expertise and experience may have a detrimental impact on the Council's ability to input and oversee developments at the right time. A formal risk assessment was also needed. We are pleased that since publication the Council and its transport partners have been able to agree to our recommendations and confirm arrangements for the funding of required resources.
- 8.9 We provided moderate assurance over the Council's role in 'NEET' (Not in Employment, Education or Training) initiatives. Roles and responsibilities between partnerships and other groups needed clarifying to improve communication and reporting to support decision making. The roles of the three multi-agency Collegiates who reported to the 14-19 Partnership Board

were not formally established and there was some inconsistency in their priorities and work.

- 8.10 Work in Housing focused on accounting reconciliations, IT controls and performance indicators. An audit of temporary accommodation housing benefit payments provided limited assurance processing and reconciliation due to a lack of clarity over systems, procedures and responsibility. We provided moderate assurance over CIVICA, the Council's housing management application, due to the need for a business continuity plan and to improve password controls and restrict access rights. Audits on the Decent Homes National Indicator 158 provided substantial assurance over data quality and moderate assurance over the adequacy of controls over third part data.
- 8.11 The status, assurance opinion and 'capacity to improvement' assessment for the audits undertaken was as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Congestion / Greater Manchester Local Transport Plan 2	Final	Moderate 	
Metrolink Phase 3a	Final	Moderate 	
Worklessness / NEETs	Final	Moderate 	
Temporary Accommodation Housing Benefit Payments	Final	Limited 	
CIVICA	Final	Moderate 	
Decent Homes National Indicator 158	Final	Substantial 	
Landlord Supply of Data NI 158	Final	Moderate 	Management Letter
New East Manchester Financial Healthcheck	Final	Management Letter	Management Letter
Accountable Body	Draft	Substantial 	TBC

9. Directorate of Transformation
















- 9.1 When the annual audit plan for 2009/10 was agreed in May 2009 the Council had not developed a clear strategy or plan for the future of ICT. The Chief Information Officer (CIO) had taken control of ICT on an interim basis and his focus was rightly on stabilising the ICT estate following the Conficker virus.





An initial high level roadmap was produced and formed the basis for later partnership agreements with the ICT Strategic Partner and Microsoft. The detail of the strategy and plan developed over the year and we are pleased that a three year strategy is now in place and that progress against this will be one of the key areas of focus for the ITIM Board. In the absence of a detailed strategy the selection of areas for the annual audit plan was based on a high level risk assessment covering issues where the CIO was aware that there were risks. These areas all form part of the ICT strategy but we acknowledge that in some areas the timescales assigned to address issues means that they will not be addressed immediately as other risks are due to be addressed first. This is one of the factors reflected in the medium capacity to improve assessments. Our audit work for 2010/11 has been agreed as part of the annual plan but a key area of focus will be a review of the strategy so reporting through the year should be better able to reflect on how the CIO is delivering against his detailed plan.

- 9.2 During the year there have been a number of significant positive developments including the permanent appointment of the deployment of anti-virus across the ICT estate, improved security of network infrastructure and patching of servers. The ICT Service has undergone a fundamental restructure, continued to strengthen resources through the recruitment and deployment of staff, the alignment of resources to support directorate transformation priorities and the appointment of a strategic ICT partner.
- 9.3 These improvements have impacted positively on the management of risks to the ICT service as well as enabling the Council to demonstrate actions having been taken to respond not only to the Conficker virus but also the Information Commissioner Undertaking issued in 2009. The deployment of encryption solutions for mobile devices, removal of USB sticks and training and development activity in respect of data quality and security are positive actions that have greatly strengthened the Council's ability to safeguarding personal and sensitive data. There remains scope to further strengthen information governance arrangements across the Council and our draft management letter set out the need for further clarification of roles and responsibilities in this regard. We are confident that meetings including the inaugural meeting of the information Technology and Information Management (ITIM) Board planned for June will resolve areas of remaining uncertainty in this area.
- 9.4 Nonetheless, there is still much work to do in ensuring the Council has the robust ICT systems and processes it requires. This is reflected in our audit findings throughout the year. The scale of the issues inherited by the CIO means that he and his team have a wide range of challenging objectives, driven by the need to deliver a stable and secure ICT service whilst delivering several concurrent large scale ICT projects that are essential to the Council's transformation ambitions. These have included the development of the Customer Relationship Management (CRM) system and the successful delivery of ICT services in First Street and other locations as part of the Town Hall Extension and Central Library decant. From this low starting point and against the backdrop of competing demands and challenges it not surprising

that, whilst we can acknowledge the progress made and mitigation of critical risks, audit work in 2009/10 has continued to identify issues of concern. This is demonstrated by the overall level of assurance and capacity to improve assessments issued in the year.

9.5 During the year we completed ten planned and three unplanned ICT audits. Two of these related to specific business systems for which the CIO has no current responsibility and are shown separately below. The assurance opinion and capacity to improvement assessment for each of these audits was as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
IT Resilience	Final	Moderate 	
Security Assessment	Final	Limited 	
ICT Contract and Supplier Management	Final	Limited 	
ICT Assets (Lifecycle Management)	Final	Limited 	
Internal and External Penetration Tests	Final	Limited 	
Internet Management and Usage	Final	Limited 	
Control and security of ICT in flexible and agile working	Final	Moderate 	
ICT Governance	Final	N/A	Management Letter
Government Connect	Final	N/A	Management Letter
Information Governance	Draft	N/A	Management Letter
IT Access	Draft	Moderate 	TBC

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
MiCare System Access	Final	Limited 	
Homelessness Housing Benefit Reconciliation	Final	Limited 	

- 9.6 Audit reports on ICT supplier and contract management; lifecycle management; penetration testing; ICT security; and internet management and usage have provided limited assurance over the adequacy and effectiveness of controls in the year. We issued moderate assurance opinions for our audits relating to flexible and agile working and IT access.
- 9.7 We issued a management letter on ICT Governance as this was also an area of focus for the External Auditor and will be reported to Audit Committee in full in June 2010. To avoid duplication we worked with Grant Thornton and concur with their findings that the Council needs to further develop its ICT governance arrangements and that systems and processes, initially outlined in the ICT strategy issued in 2009, need further development and embedding throughout the Council. We are pleased that there has been recent progress in this area and consider the ITIM Board should help strengthen governance arrangements during 2010/11.
- 9.8 Whilst risks remain and there is clearly scope for further improvement in controls these reports do represent a positive direction of travel and improvement from the position at the start of the year. The capacity to improve issued at the time of publishing each report is not wholly within the control of the ICT Service and we consider that further significant improvements in the system of control will be constrained until a number of key factors are addressed including the following:
- ICT service, management, delivery and budgets consolidated under the control of the CIO. This is an area we understand is being actively progressed with Finance.
 - Standardisation, upgrading and mapping of the ICT estate including implementation of an agreed standard for device and server build.
 - Clarity of roles and responsibilities, particularly between ICT, the restructured Corporate Personnel / Organisational Development Service and line management for monitoring compliance with corporate ICT policies. Initial meetings have been held and this clarity is expected to emerge early in 2010/11.
 - ICT take ownership of all ICT assets.
 - A comprehensive understanding of all ICT contracts and suppliers is developed, supported by standard contract and supplier management processes and the consistent adoption of appropriate procurement processes for all new ICT contracts and supplier engagements. We are aware that a new Contract Manager has been recruited so are confident that actions should progress positively in this area.
 - Fully embedding ICT governance and project management arrangements.
- 9.9 Delivery to agreed ICT implementation milestones remains a significant challenge given the competing demands on the CIO in supporting the delivery of a secure, resilient and controlled ICT across the Council at the same time as providing a critical role in supporting the transformation agenda. There remain a number of recommendations, including high risk recommendations dating back to 2007, where we cannot provide assurance that risks have been fully addressed but where we acknowledge that progress is continuing to be

made. Contributing factors to this include the number of challenges faced by the ICT service, lack of understanding of the depth of the problems in ICT before targets were originally agreed and competing (and sometimes fixed) demands on the ICT service from the business. This is all at a time when the ICT service is balancing delivering a stabilised and fit for purpose ICT service against supporting the transformational requirement of the Council, with sometimes insufficient resources or skills. This has brought on a greater reliance during 2009/10 on key ICT contractors and the current ICT strategy partner (Ernst Young).

9.10 However, overall there has been a sustained improvement in the management of ICT risks throughout the year, including the completion of a number of key actions and commencement of a number of developments that will provide further opportunities to strengthen ICT across the Council during 2010/11. These include:

- Entering into the Enterprise Agreement for Microsoft.
- Development and / or refresh of ICT strategies including the ICT Service Disaster Recovery and IT Service Continuity Plan and the ICT Security Policy.
- Finalisation of key appointments in ICT.
- Establishment of the IT and Information Management Board with its proposed inaugural meeting in June 2010.
- Identification and removal of single points of failure, where ICT was reliant on one member of staff to deliver specific services.
- Relocation of the data centre in the Town Hall Extension to the Sharp building to enhance back-up of key systems.
- Increasing the resilience of Citrix servers and the Lotus Notes application and developing failover capability for these solutions as well as a number of servers in Daisy Mill.
- Procurement of ICT infrastructure monitoring software from Microsoft.

9.11 The CIO has been aware of the issues and risks referred to throughout our audits and is aware that challenges remain. We consider that the production and monitoring of a detailed delivery plan is essential if the ICT service is to be successful in addressing key risks, implementing the ICT roadmap and delivery against key targets and objectives for 2010/11. ICT delivery will be the subject of continuing audit focus during the year and we are proposing ongoing coverage across a range of ICT risk areas during 2010/11.

10. Anti-Fraud and Investigations

10.1 Internal Audit focus in the year has been the delivery of a programme of proactive anti-fraud work, including development activity and awareness raising, as well as involvement in a significant number of reactive investigations. 340 days were spent on proactive and reactive anti-fraud and corruption work compared to a budget of 255 days. Given the volume of referrals and success of pilot proactive fraud detection reviews the Internal Audit Plan for 2010/11 includes an allocation of over 500 days to extend coverage across these areas.

- 10.2 Detailed information in relation to anti-fraud and investigations is included in the Internal Audit Annual Fraud Report to be presented to Audit Committee in June 2010 but in summary the work in the year has been as follows.

Proactive

- 10.3 Proactive work has included three pilot reviews undertaken using new data interrogation software. These reviews focused on duplicate payments, purchase cards and travel and expenses. Whilst no acts of fraud were identified through these reviews they did identify overpayments of over £80,000 and a range of systems and compliance issues that resulted in recommendations for improvement.
- 10.4 Development work in the year has included review and refresh of key policies, benchmarking, updating the intranet site for anti-fraud and the coordination of the National Fraud Initiative Exercise to which £230,000 of savings has been attributed.

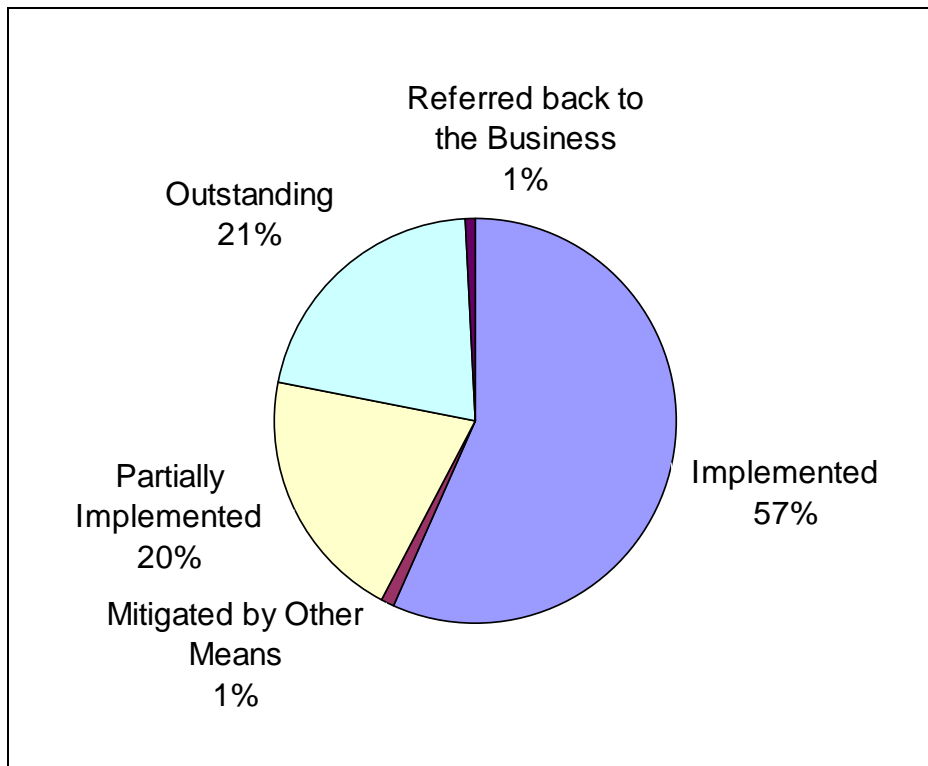
Reactive

- 10.5 Internal Audit has supported or led 68 investigations referred during the year, including 22 received under the Council's whistleblowing policy. This represents a significant increase from the previous year. The work included examination of potential fraud and corruption, theft of money and poor management practice. Reports have been provided to relevant managers and recommendations for action and system improvements made as necessary.
- 10.6 As in 2008/09 support has been provided in the investigation of staff in cases of alleged financial misconduct and a number of investigations have been conducted at schools supporting Education, concerning issues such as theft, adequacy of financial management arrangements and probity.

11. Recommendation Implementation

- 11.1 All final Internal Audit reports include management action plans to address agreed recommendations. The effective implementation of these action plans within timescales determined by management is essential if the risks identified during audit work are to be managed effectively. Internal Audit undertakes follow-up work on all recommendations and reports progress to Audit Committee on a quarterly basis. The status of implementation for the audit work carried out in 2009/10 is as follows.
- 11.2 A total of 565 recommendations have been made by Internal Audit in audit work of which 431 have now passed agreed implementation dates. Regular review and assessment of progress is undertaken by Internal Audit informed by business owners. The current known status is shown in Diagram 1 below.

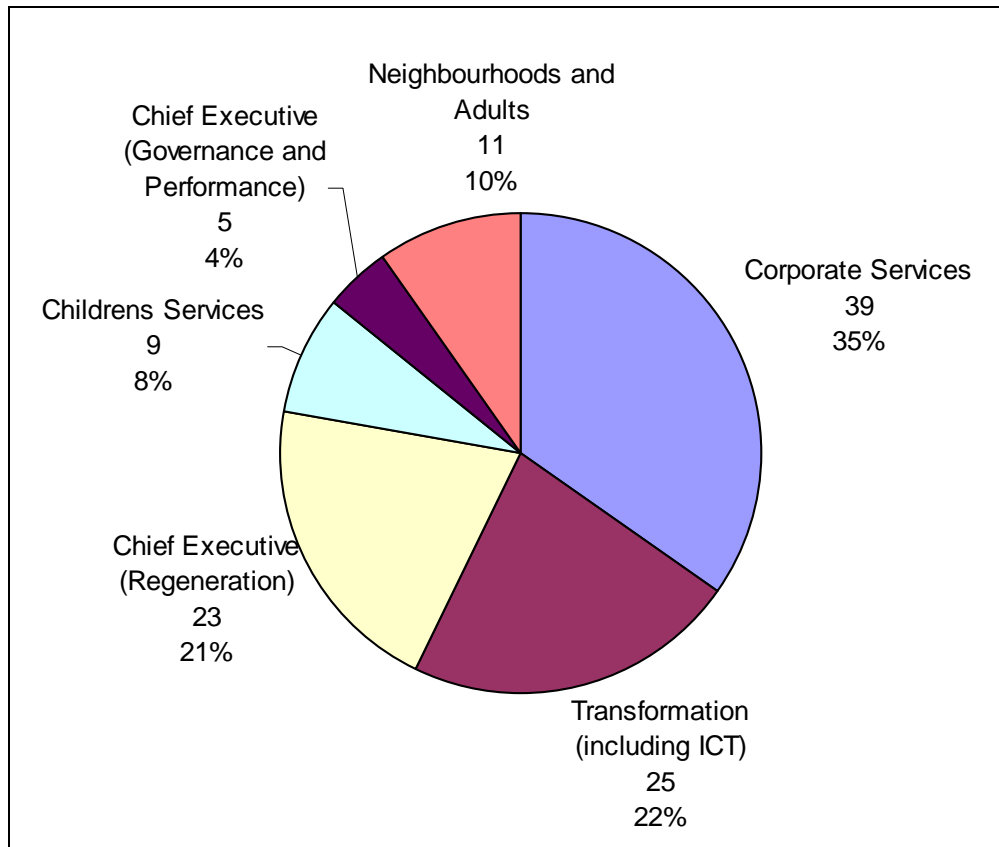
Diagram 1 – Implementation Status of Internal Audit Recommendations



- 11.3 Internal Audit has verified that 220 of these recommendations have been implemented by actions evidenced to Internal Audit by management. The risks referred to in five further recommendations were mitigated through the establishment of other appropriate controls.
- 11.4 There has been some progress and therefore partial implementation for 83 recommendations (compared to 73 in March). The reasons for partial implementation is that some actions to address risk involve multiple actions, such as the production and dissemination of guidance and delivery of training or advice. In these circumstances, Internal Audit assess recommendations as partially complete when aspects of the recommendation, such as the development of draft guidance, have been completed by the due date and continue to monitor progress until action is complete. Internal Audit acknowledges that managers are taking steps to manage risks but progress in ensuring full implementation of actions has been slower than had been agreed. It is important that realistic timescales and action plans are agreed as part of the action planning and any risks to meeting those deadlines are highlighted as soon as possible to SMT and Internal Audit.
- 11.5 In line with Internal Audit's policy for recommendations which have not been implemented within 12 months of the agreed due date, we consider the need to refer some risks back to the Business. Three referrals have been made and others are being considered. When Internal Audit refer recommendations back to management this requires formally acknowledgement that management understand and accept the exposure to risk. These matters should be considered by them as part of business risk planning and Internal Audit will re-assess the risks as part of audit planning in the coming year.

11.6 There are 112 outstanding recommendations where insufficient evidence had been provided to demonstrate implementation by the dates agreed (compared to 75 in March). These relate to Directorates as shown in Diagram 2 below. Internal Audit continue to follow up with management to establish and assess the reasons for this and a full update, including details of higher risk recommendations, will be provided to Audit Committee as part of the regular reporting cycle at the end of June 2010.

Diagram 2- Outstanding Recommendations by Audit Group Area



Exposure to Risk

11.7 Internal Audit monitor progress to implementation to ensure that appropriate action is taken to address risk and that exposure is reduced. Particular priority is placed on ensuring that recommendations which are assessed as critical and high risk are being addressed and that any delays in implementation are notified to both senior business managers and to Internal Audit for advice and additional support as necessary. A more detailed quarterly progress report will be provided to Audit Committee at the end of June which will expand on the exposure to risk and mitigating actions being taken.

11.8 Demonstrating the effective implementation of audit recommendations remains a challenge for the Council for a variety of reasons:

- Continued changes in structures, staffing and approach across all directorates means that specific recommendations can be partially or fully superseded.

- Evidence of a lack of capacity in some areas to deliver planned solutions in the agreed timescales so the need to secure additional resources for implementation continues to be formally reflected in audit reports.
- Optimistic timescales for completion meaning that issues fall overdue before management have had opportunity to take appropriate action. Internal Audit staff are challenging deadlines they consider to be over-optimistic but service management are ultimately responsible for determining timescales.
- Reliance on other service areas in implementing controls can be an issue, particularly when finance, personnel or ICT support is needed to implemented proposed changes. Service managers are encouraged to consider such dependencies when providing responses.

11.9 There has been action taken to implement a large number of recommendations made in the internal audits carried out across the Council. Management responses and the level of evidence provided to confirm implementation continues to improve but is inconsistent and there are delays in obtaining sufficient evidence to evaluation completion.

11.10 Internal Audit will continue to work with all Heads of Service and Strategic Directors to ensure steps are being taken by management to manage the identified risks and implement recommendations and the updated position will be reported to Audit Committee at the end of June.

12. Conclusions

12.1 Members are asked to note the 2009/10 Annual Internal Audit Report.