
**Manchester City Council
Report for Information**

Report to: Audit Committee - 9 December 2010
Subject: Internal Audit Quarterly Assurance Report 2010/11
Report of: City Treasurer / Head of 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 Assurance Report that is used to inform the Annual Governance Statement. This report provides detail on the work undertaken between April and November and contains a summary of all opinions issued in the year to date.

Recommendations

Members are requested to consider the Internal Audit Quarterly Assurance Report.

Wards Affected:

None

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Background documents (available for public inspection):

Documents used in the development of the quarterly report include the Internal Audit Plan 2010/11 and interim assurance reports presented to Audit Committee in 2010.

INTERNAL AUDIT REPORT APRIL TO NOVEMBER 2010

1. Introduction

- 1.1 This report provides a summary outturn of the work of the Internal Audit Section for the eight months from April to November 2010. It reports progress with delivery of the Annual Audit Plan and with implementation of recommendations, providing assurance opinions on completed audits and on the level of exposure to risk arising where recommendations are outstanding. The opinions and statistics provided have been reported to and presented at the relevant directorate's senior management team meetings.

2. Audit Programme Delivery and Implementation of Recommendations

- 2.1 The following table summarises the outturn against the total number of audit assignments contained in the annual plan. Outputs included audit reports, management letters and advice and support to management on service improvement but excludes reactive fraud and irregularity investigation reports.

Audit Status	Audit Plan Outputs	Contingency / Off Plan Items
Final Report Issued	55	3
Draft Report Issued	9	2
Fieldwork Completed	21	2
Fieldwork Started	12	
Planning	14	
Not Started*	68	
Totals **	179	7

* Includes 37 school audits planned for the period December 2010 to March 2011. One audit (16-19 funding) has been superseded as a result of changes in Government Policy.

** The original audit plan forecast 164 audit outputs for the year. We are currently anticipating 186 individual audit outputs as a result of additional reports issued and urgent work identified in the year.

- 2.2 The sections on each directorate below describes in more detail the progress made against the plan. This includes an assurance opinion as agreed with service managers together with key risks and concerns.

2.3 Implementation statistics reported in section 11 were as at 30 September 2010 in line with figures reported for the Directorate Performance Dashboards presented as part of quarterly Strategic Support and Challenge Sessions. The individual directorate sections report broadly on those audits where we are providing ‘moderate’, ‘limited’ or ‘no’ assurance over the level of exposure to risk as a result of outstanding recommendations.

3. Children’s Services

3.1 The 2010/11 annual internal audit plan allocated 690 days to Children’s Services which included 419 days for Schools and Financial Management Standard in Schools (FMSiS) related audit work and 271 days allocated to 12 audits of Children’s Services systems or activities, based on the risk assessment carried out to develop the audit programme. The status, assurance opinion and ‘capacity to improve’ assessment for current audits is as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
16-19 agenda	Superseded	N/A	N/A
Contact Point Certification	Final Report Issued	● Moderate	No Longer Relevant
Integrated Admissions	Final Report Issued	● Moderate	↑
Sure Start Children’s Centres	Draft Report Issued	● Limited	Set at Final
School Attendance	Fieldwork Completed	TBC	TBC
Closing Schools	Fieldwork Completed	TBC	TBC
Safes and Security in Schools	Fieldwork Completed	TBC	TBC
CRB checks	Fieldwork Completed	TBC	TBC
District Arrangements – Business Unit	Start delayed due to OFSTED inspection		

3.2 Children’s Services continue work to identify and achieve significant financial savings identified through the medium term financial strategy and transformation programmes. The Directorate’s Target Operating Model and Blue Print are in place and action to date has included the large scale restructure of services and strategic approach to delivery. Significant changes

have been made to Education Services include the removal of the School Effectiveness Officer role and the changing role of the Local Authority in relation to schools. The Government released a White Paper to be followed a new Education Bill in Spring which potentially will lead to further changes in the Council's role in education and relationship with schools which may further affect structures.

- 3.3 We are currently finalising the report for our audit of financial management in Sure Start Children's Centres. Reports have been issued to each of the seven Sure Start Children's Centres we visited during the audit and the key issue emerging from the audit was the need to develop a financial management framework including documented roles, responsibilities and procedures within the Council and individual Centres. The lack of a framework had led to significant inconsistency in operational financial and budget management across the Centres as well as examples of non-compliance with Financial Regulations. Positively we could confirm that managers and staff understood operational arrangements at their Centres, however the quality and effectiveness of these arrangements varied.
- 3.4 Inconsistency of approach and understanding of financial management was also a theme in our audit of school safes and security. This work involved visits to a sample of schools to review cash handling arrangements. We identified there was some confusion over approved safe limits and how best to control cash on site. We provided feedback on each visit and are consolidating the key findings for consideration by Children's Services. We plan to issue a summary of risks and control tips to all schools and will work with Children's Services to consider the content of this advice.
- 3.5 Fieldwork has been completed for our audits of School Attendance and CRB checks in Children's Establishments and we will report our findings and recommendations to management in December. Our Children's Services District Management Unit audit fieldwork was delayed by the recently announced inspection in the South District which was the focus of our audit. It will therefore be early December before we report our draft findings from this audit.
- 3.6 As planned, the following remaining Children's Services audits will commence in quarter four:
- Youth Service performance management.
 - Children's Trust programme.
 - 21st century schools.
 - Casework management compliance.
 - Information security in schools.

Schools

- 3.7 On 15 November the Government announced that the Financial Management Standard in Schools (FMSiS) was being withdrawn with immediate effect.

Further clarification obtained from the Department for Education confirmed that the City Treasurer will not be required to report on numbers of schools meeting the FMSiS and that a new, simpler assurance process will be developed for 2011. This simpler process will apply to all schools including free schools and academies. 2010/11 has been the first year of a new integrated school audit / FMSiS assessment for Manchester schools so we are currently assessing and consulting with schools and AGMA Councils how to tailor our approach in light of this announcement.

- 3.8 Following concerns over the effectiveness of controls over closing schools we are drafting a consolidated report to the Deputy Director of Children's Services with recommendations for his consideration. From ongoing assessment and our dialogue with senior officers we agree on the need for a significant change in approach including greater clarity over the roles and responsibilities of Head Teachers, Governing Bodies and the Local Authority. These responsibilities need to be aligned with clear accountability and our report will help in the design of new arrangements. This is increasingly important given the Government's encouragement of free school, trust and academy arrangements that will increase the number of schools gaining greater independence from the Local Authority.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
St Paul's Catholic High School	Final Report Issued	● Limited	↑
Loreto High School	Final Report Issued	● Limited	→
Trinity High School	Final Report Issued	● Moderate	↑
Levenshulme High School	Final Report Issued	● Moderate	↑
Plant Hill Closing School Audit	Final Report Issued	● Moderate	↑
King David Infant Closing School Audit	Final Report Issued	● Limited	→
King David Junior Closing School Audit	Final Report Issued	● Limited	→
New Moston Primary School	Final Report Issued	● Moderate	↑
Crab Lane Primary School	Final Report Issued	● Moderate	↑
St Margaret Mary's RC Primary School	Final Report Issued	● Moderate	↑
The Barlow RC High School Follow Up Audit	Final Report Issued	● Moderate	↑

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Moston Lane – Health Check	Final Report Issued	● Limited	↑
King David High School Follow Up Audit	Final Report Issued	● Limited	→
Crossacres Primary School	Final Report Issued	● Moderate	↑
St Pauls Primary School	Final Report Issued	● Moderate	↑
St Anne’s RC Primary Crumpsall Follow Up Audit	Draft Issued	● Limited	Set at Final
All Saints CE Primary School	Draft Issued	● Moderate	Set at Final
St Francis RC Primary School	Draft Issued	● Moderate	Set at Final

3.9 We continue to attend the Schools Finance Board with Senior Management from Children’s Services to allow information from the Board to feed into our proposed audit work and to feedback any major and significant concerns from schools we have visited. The Head of Education Services has confirmed that our audit work at schools will feed into the Schools Causing Concern RAG report. We also regular meetings with Senior Management from Childrens Services Finance to ensure risks and concerns are shared and addressed on a timely basis.

Audit Recommendations and Exposure to Risk

3.10 The percentage of higher risk recommendations implemented by their due date in Children’s Services has improved significantly from 76% to 86% since our last quarterly report and we are pleased to be able to acknowledge that the exposure to risk has significantly reduced. The outstanding recommendations from the School Budgets audit have now been implemented and in particular that this means a comprehensive review of the School Financial Regulations is nearing completion. All recommendations from the Children Missing in Education, School Attendance, Worklessness-Effectiveness of NEET initiatives and Business Unit, Safeguarding Improvement Unit audits have been implemented and all those recommendations that were due for implementation in the Teenage Conception Strategy audit have been addressed.

3.11 We have received evidence of full implementation of four of the five recommendations from the Academies audit with the only recommendation remaining outstanding being in relation to developing a benefits realisation framework to establish if the Academies are delivering in line with the strategic vision. Development of this framework is dependent upon the Academies

agreeing and signing their individual collaboration protocols which each of them are yet to do at this stage. The Deputy Director Children's Services confirmed that Legal Services are engaged in negotiating with each Academy to get these agreements signed and the framework will be developed as soon as this is completed. The overall exposure to risk has therefore significantly reduced in this area.








- 3.12 The risks relating to the three outstanding recommendations for the Manchester Federation Special School have been referred back to the Chair of the Interim Executive Board who is a Local Authority appointed officer. Management at the School confirmed in the latest update received that they were unable to give due consideration to implementation of these recommendations given the current budget pressures and related demands on the Business Manager's time. Therefore given these audit recommendations were due for implementation in July 2009 and in line with our policy for recommendations over 12 months old we have referred the risks back to the business.
- 3.13 We are concerned that there had been no further progress in implementing the outstanding recommendations from our audits of Safeguarding (one recommendation), Casework Management (two recommendations) and Children's Trust (three recommendations) and so the exposure to risk in these areas remains. An update in relation to each audit has been received from management and we are satisfied that in each case they are aware of the need to implement these recommendations and have provided us with realistic dates for actions to be completed and appropriate reasons for the delays in implementation. We therefore expect to be able to report implementation of the majority of these recommendations in our next quarterly assurance report. The exception to this is one significant recommendation from the Children's Trust audit which was to embed performance reporting in Districts. This has been delayed due to delays in the restructure of the Business Improvement and Commissioning Division which is unlikely to be completed until early 2011.
- 3.14 Overall we are pleased with the progress made to address recommendations. There have been significant reductions in the exposure to risk in a number of audits completed and therefore an overall reduction in exposure to risk. We remain concerned that are some significant recommendations remain outstanding however we are satisfied that management are continuing to seek ways to address these issues.

4. Directorate For Adults

- 4.1 Internal Audit's 2010/11 annual audit plan allocated 235 days to 10 audits of Directorate for Adults systems or activities, based on the risk assessment carried out to develop the audit programme. The status, assurance opinion and 'capacity to improvement' assessment for current audits is as follows.
- 4.2 The Directorate for Adults Target Operating Model has been developed and the blueprint outlining the vision for the service was approved by the

Manchester Improvement Board on 30 September. Work to date has included the large scale restructure of services and strategic approach to delivery. Most significant are the changes made to redefine areas of responsibility within the Senior Management Team following recent personnel changes. These include two Assistant Director positions, namely Commissioning and Customer Support being amended to reflect an increase in partnership and integrated working with the health sector. These positions have become the Assistant Director Integration and Partnerships and Assistant Director Integrated Community Provision respectively. Management have successfully recruited to the post of Assistant Director Adults Business and Quality.

- 4.3 In addition, the new Head of Finance (Adults) started in September and an Interim Head of Safeguarding was appointed from a Primary Care Trust (PCT) Medical Directorate and will start work in November. It is anticipated the interim position will remain until a permanent appointment is made. This position is currently being advertised externally.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Personal Assistants CRB Checks	Final Report Issued	 Limited	
Residents Payments	Final Report Issued	 Limited	
Fraud Detection Exercise Cash Individual Budgets	Final Report Issued	 Moderate	
Fraud Detection Exercise Cash Handling	Draft Report Issued	 Limited	Set at Final
Homecare Contracts	Fieldwork Completed	/A	N/A

- 4.4 We can provide substantial assurance over the controls in operation between the Directorate and the Shared Service Centre for the completion of CRB checks for social work staff. Management had taken effective action to address previous recommendations made in this area.
- 4.5 A similar review of the CRB process in respect of Personal Assistants (PAs) appointed by Cash Individual Customers was undertaken. Limited assurance was provided over the arrangements to identify individuals either applying for PA positions, or as soon as possible following appointment, to ensure they are appropriately vetted. Whilst the Brokerage Team had introduced a separate procedure for processing CRB checks, the controls were not as robust as those operated corporately within the Shared Service Centre. We were unable to ascertain from MiCare an accurate number of customers holding cash IBs or the corresponding number of PAs in employment. Management have agreed responses to our recommendations which include engagement

with the Shared Service Centre on CRB checking that should help reduce risks in this area.

- 4.6 We can provide limited assurance over the effectiveness of financial controls in respect of residents payments. The absence of adequate financial information held on MiCare leading to a lack of consistency with the Abacus Payments System reduced our ability to provide assurance over the authorisation of residents payments and calculation of customer contributions. This was of significant concern as the proper administration of resident payments requires effective front end controls, specifically to obtain complete and timely information. Management have agreed a number of recommendations to improve the effectiveness of the control environment, which are due for implementation during quarter three.
- 4.7 We have undertaken two fraud detection exercises relating to cash individual budgets and cash handling. It was reassuring that we did not identify any fraudulent activity through these reviews. We found that management had taken action to improve the controls in operation for cash handling following a number of high profile investigations and our previous audit in this area. We have made recommendations to further improve the controls in these areas and management are currently developing responses to address these risks.

Audit Recommendations and Exposure to Risk


- 4.8 Currently we have outstanding recommendations against five audits:
- Individual Budgets Audit Process.
 - ASC – Cash Handling Procedures.
 - Safeguarding – Vetting and Barring.
 - Homelessness.
 - MiCare Access.
- 4.9 There have been some positive developments in the implementation of recommendations within the Directorate for Adults. 63% of critical, major and significant Priority recommendations due in the period to 30 September had been implemented and overall, 70% of outstanding recommendations in these categories had been addressed. Management had taken action to address all of the recommendations made to help manage the risks in relation to the Safeguarding – Casework Management audit. This audit had identified some particularly high risk and sensitive issues for the Council in terms of officers failing to comply with procedure in relation to recording activity and decisions taken, this in turn increased service users exposure to risk. In response to the report a quality assurance review process was introduced and system improvements included within the recent MiCare upgrade, however management will need to ensure their effectiveness going forward. As a result of the actions taken we consider that the exposure to risk in this area is reducing.
- 4.10 We remain concerned about Individual Budgets, specifically the progress toward clearing the backlog of reviews of customer returns. Responsibility for the audit process was transferred from the Directorate for Adults to Corporate

Services in 2009 and progress has been made to help ensure a sustainable infrastructure is in place to complete the necessary work. The initial, estimated date for this work to be completed was September 2010 and has still to be resolved. This presents ongoing risks over the appropriateness of Individual Budget expenditure, specifically overspends, misspends and poor service provision.

- 4.11 Cash handling is an inherently high risk area and a number of previous management and audit investigations have been completed in this area. Whilst there has been progress made to implement the recommendations made as part of the ASC – Cash Handling Procedures, this has been slower than anticipated. Whilst there remains only one partially implemented and two outstanding recommendations, we are concerned that the implementation date has been exceeded by eight months. To reduce the exposure to risk in this area action is required to amend procedure documentation to ensure clarity over roles and responsibilities of staff handling customers’ money.
- 4.12 We are working actively with the Directorate to help identify common themes and risks that are preventing improvement in controls across cash handling, individual budgets and other areas of concern. As many systems and process are interconnected there are many interdependencies that have impacted on the ability to address recommendations within agreed timescales. Planned improvements are being assessed within this wider context and delays are also a result of prioritising transformation activity as well as shortfalls in resources and capacity across the service. Despite the slower than anticipated progress, the level of management engagement on these issues is positive and we hope to be able to report further progress in the next assurance report.

5 Neighbourhood Services

- 5.1 The 2010/11 annual audit plan allocated 81 days to four audits of Neighbourhood Services systems and activities. Issues raised following subsequent discussions with the Assistant Manager for Heaton Park led to allocation of additional time to provide advice and guidance over car park income management. The status, assurance opinion and ‘capacity to improve’ assessment for the audits undertaken was as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Heaton Park – Car Park Income Cash Handling	Final Report Issued	Advice and Guidance	
Leisure Trust Contract Management	Fieldwork Complete	N/A	N/A
Waste Management Recycling	Planning Complete	N/A	N/A

- 5.2 Proposed changes within the Directorate include the large scale restructure of Neighbourhood Services which affects a substantial number of Council services and over 4,000 staff. One of the key principles for the blueprint is ensure both Integrated Neighbourhood Delivery Teams and Community Based Services are organised to deliver services across five strategic regeneration framework areas (plus the city centre) and 14 localities. Work is to commence shortly on the detailed design and plans for roles and responsibilities of teams across the city. We remain confident that senior management have a clear understanding of the strategic direction in which the service is headed and work continues with stakeholders and key partners to achieve this
- 5.3 We have concluded fieldwork on the Leisure Trust Contract Management audit and will be able to report our conclusions and opinions in the next assurance report.

Audit Recommendations and Exposure to Risk

- 5.4 Management have continued to make positive developments towards the implementation of recommendations within Neighbourhood Services. Over 70% of critical, major and significant recommendations have been implemented by the due date. There remain a small number of outstanding and partially implemented recommendations recorded against the following audits:
- Blue Badge Scheme – Compliance Review.
 - Congestion.
 - Green City Strategy.
 - CCTV – Bus Lane Enforcement.
 - Waste Management: Contract Performance Measures.
- 5.5 Appropriate action had been taken by management to implement seven out of the nine recommendations made to help manage the risks in relation to business continuity arrangements. The risk in relation to the two remaining recommendations was written back to the business in July due to the period between the date of the outstanding recommendations and the likely date of implementation exceeding 12 months.
- 5.6 Following the last assurance report management have confirmed that work has been undertaken to engage and develop areas of corporate dependence such as IT to ensure these were effectively placed to support other services in both response and recovery to business continuity incidents. Work will be completed shortly and outline to Heads of Service a comprehensive testing and exercise strategy which Civil Contingencies management anticipate will address high risk scenarios and enhance staff competencies. To ensure best practice is adopted the work has been scheduled to coincide with the recent release of British Standard Institute guidance. These actions should

contribute and will demonstrate the Council's reduced exposure to risk from the effectiveness of business continuity arrangements.

- 5.7 In 2009/10 we provided moderate assurance over the effectiveness of the controls and procedures in relation to 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 PCN's at the appropriate time. All cameras at the time of the audit were correctly certified and further public clarification was released. Appropriate action has since been taken by management to implement eight of the eleven recommendations made. These should help manage the Council's exposure to both financial and reputational risk by providing a management assurance framework to evidence checks undertaken in the operation of the CCTV services. The Principal Environment and CCTV Manager was appointed in August 2010 and has progressed work in relation to the three remaining recommendations, which focused on the need for a revised Code of Practice and operational guidance. Whilst progress in these areas has been slower than the original target dates of July 2010, management anticipate these will be completed by the end of November.
- 5.8 We reported a lack of activity in managing performance against the Waste and Recycling contract held with EnterpriseManchester, resulting in a limited assurance opinion. Whilst efforts had focused on the development of recycling services, action was being taken to address the need for an effective quality assurance and contract monitoring process and we therefore consider that there should be a high capacity to improve. To ensure the Council's exposure to risk in this area is reduced it is essential that the contract performance is managed to enable the effectiveness of waste and recycling services to be monitored and prompt action taken to address under-performance. From discussions with management we are satisfied that some progress has been made in the clarification of reporting forums and corresponding roles and responsibilities; however full implementation is not due or expected to be achieved until the New Year.
- 5.9 As previously reported, a review of Heritage Assets resulted in eight recommendations in respect of Libraries of which six have been referred back to the business as they were superseded by the decant of books from Central Library to secure storage or are not due until 2013/14. The two remaining recommendations in relation to Libraries have been implemented. Overall the exposure to risk in this area has reduced with management planning to manage risks in the long term through the redevelopment of the Central Library.

6. Chief Executive (Solicitor's, Corporate Performance And Communications)

- 6.1 The 2010/11 Internal Audit plan allocated 140 days to five audits in Corporate Performance Group systems and activities including audits of governance

arrangements in a number of significant partnerships. The status, assurance opinion and 'capacity to improve' assessment for the audits undertaken was as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
LPSA 2 – Modal Shift Survey (contingency - grant certification)	Final Letter Issued	N/A	N/A
Complaints	Final Report Issued	● Moderate	↑
Equalities	Final Report Issued	● Moderate	↑
Community and Voluntary Sector (additional audit)	Fieldwork complete	N/A	N/A
Partnership Governance	Fieldwork started	N/A	N/A
Management Information (formerly Data Quality)	Planning	N/A	N/A

- 6.2 Audits completed on the Corporate Complaints process and Equalities provided assurance over the way in which Corporate Performance Group manage and aim to embed Corporate policies. We were satisfied that corporate arrangements were generally operating well, but our overall opinion was adversely affected by the lack of compliance with corporate requirements in some directorates.
- 6.3 Our final report on the Corporate Complaints process confirmed that we were satisfied with the operation of the policy and the work of the Corporate Complaints Team. Overall, however, we gave moderate assurance due to the need for improved compliance in some business areas. Corporate Complaints Team managers responded positively to recommendations made and there was early progress made to address our concerns. As a result we assessed a high capacity to improve.
- 6.4 Our audit of Equalities focused on the effectiveness of arrangements for producing equality impact assessments and delivery plans. We provided moderate assurance over compliance with corporate requirements to the Head of Organisational Improvement and Service Inclusion. Audit recommendations focused on the need to improve equality delivery plans, engagement with Heads of Service, training provision and corporate policy assurance. Service managers told us that the work was useful to them, providing a strong evidence base to support improvement.

- 6.5 Following a number of financial management and governance concerns raised through whistleblowing and investigations into Community and Voluntary Sector (CVS) organisations we are consolidating our thematic findings and recommendations in an audit report. Given the scale of Council funding and grants to the CVS we are reassured that the Chief Executive's Department and Directorate of Transformation are already reviewing systems and processes and our work will feed into this current process.
- 6.6 Audits of partnership governance have started with discussions with key stakeholders, and detailed testing of arrangements in five Partnerships will take place in November and December. We will issue short audit reports to lead Council officers for each partnership as work is completed and will summarise our findings in a report for Corporate Performance Group.
- 6.7 We are currently in discussion with the Head of Research and Performance over the scope and approach of our work on the quality of data used by managers and we expect to start fieldwork later in November.

Audit Recommendations and Exposure to Risk

Corporate Performance Group

- 6.8 Overall we can provide substantial assurance over the current level of exposure to risk arising from action taken to implement the recommendations identified in our completed audits. Implementation is now reported to Executive Members within the September performance dashboard percentage reported that 22% of critical, major or significant recommendations were implemented by the due date. Since the due date, however, actions have been taken and other than two referred back to management, the remaining recommendations have been implemented.
- 6.9 The main area of focus has been in respect of the Drug and Alcohol Strategy Team (DAST). We acknowledge the work undertaken since our last report to implement two significant and three moderate recommendations. We are satisfied that short term contracts had been signed to formalise existing arrangements and that the City Treasurer was aware of the situation. Interim arrangements will help to address the risks, however the scale of the difficulties is greater than first indicated by our audit and implementation of a complete solution, including re-letting contracts, may now take up to two years. Taking into the account the work done and still to do, we can provide moderate assurance over ongoing exposure to risk. In addition, and in line with our policy for recommendations outstanding for over 12 months, we will refer the risk associated with these recommendations back to senior management. While we will no longer formally monitor implementation we will continue to take account of progress in our assurance reports.





City Solicitor

- 6.10 We have received management responses to audits of compliance with Gifts and Hospitality, the Data Protection Act and the Freedom of Information Act and final reports have now been published. We were able to provide

substantial assurance over the level of compliance with statutory and corporate requirements on DPA and FoIA in particular and the agreed actions to be taken in response to all three reports. We take assurance from our understanding that risks of non-compliance with the Information Commissioner's Freedom of Information publication scheme are being addressed as part of a coordinated response by the Association of Greater Manchester Authorities' FoIA/DPA Group.

7. Chief Executive (Regeneration)

7.1 The annual audit plan allocated 90 days to four audits of Regeneration Division systems. Following discussions with the Head of Housing Strategy we have allocated additional time to an audit of gas servicing arrangements. The status, assurance opinion and 'capacity to improve' assessment for the audits undertaken was as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Social Housing Allocation – Re-registration Process	Final Report Issued	 Moderate	
Social Housing Allocation – Re-registrations Management Assurance	Final Report Issued	 Substantial	
Gas Servicing in Housing	Fieldwork Completed	N/A	N/A
Management of Regeneration Projects	Fieldwork Completed	N/A	N/A
SRF / Project Management	Fieldwork Completed	N/A	N/A
Social Housing Allocation – Complaints, Appeals and Enquiries	Fieldwork Completed	N/A	N/A
Housing PFI Contracts	Planning	N/A	N/A

7.2 There has been some change to planned audits since our last quarterly report, given the impact on Regeneration of funding reductions and Government policy, including the decision to abolish the NWDA. As a result of these changes we propose that our planned audit work of New East Manchester Ltd will focus on the impact of consequent changes in regeneration delivery structures.

7.3 We have issued a draft report on our audit of ERDF project management and await a management response to recommendations before we confirm an assurance opinion. The work on SRF project management is currently being finalised and we will issue a draft report shortly.

- 7.4 The audit plan included an allocation of time to review controls over social housing allocation which was used for three audits. We conducted an assessment of the adequacy of controls over the re-registration process for the new Housing Allocations Scheme. This focused on the extent to which information submitted was handled securely, recorded and retained correctly and appropriately actioned. Our report included recommendations designed to improve controls and we have taken assurance from action by managers to implement them. Subsequently we reported positively following further work on the effectiveness of the management assurance framework. We expect to report on the complaints and appeals process shortly.
- 7.5 We have started work on gas servicing arrangements agreed earlier this year with the Head of Housing Strategy. The audit is being delivered jointly through collaboration with Health and Safety officers who have wide experience in this area, basing work on an assessment of compliance with the Audit Commission's 'Gas Safety' guidance checklist.













Audit Recommendations and Exposure to Risk

- 7.6 We can provide moderate assurance over the current level of exposure to risk arising from action taken to implement the recommendations identified in our previous audits. Four out of 15 critical, major or significant recommendations are not fully implemented and three are partially implemented. In November we reported that 40% of recommendations in these higher risk categories had been implemented by the due date.

8. Corporate Services

- 8.1 The audit plan allocated 621 days to 25 audits, including core financial systems. The plan includes a number of pro-active reviews designed to identify potentially fraudulent transactions. In addition, in the first quarter we allocated resource to undertake three financial health-checks of organisations in receipt of Council funding.
- 8.2 The status, assurance opinion and 'capacity to improve' assessment for the audits undertaken was as follows.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Grant Certification - Stroke Carers Grant	Final Letter Issued	Certification of Grant	N/A
Grant Certifications - Growth Point	Final Letter Issued	Certification of Grant	N/A
Grant Certifications - Housing Market Renewal	Final Letter Issued	Certification of Grant	N/A

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Framework Contracts - North West Construction Hub	Final Report Issued	Full 	N/A
Payroll Compliance	Final Report Issued	Moderate 	
Debtors System Review	Final Report Issued	Substantial 	
Fraud Detection Exercise - Fees Payroll	Final Report Issued	Limited 	
Revenues and Benefits Quality Assurance System	Final Report Issued	Substantial 	
Treasury Management - Compliance	Final Report Issued	Substantial 	
Revenues and Benefits Recovery and Suppressions	Draft Report Issued	Moderate 	Set at Final
Fraud Detection Exercise - Payments to Employees	Draft Report Issued	Substantial 	Set at Final
Cash System Review	Fieldwork Complete	N/A	N/A
Creditors - Compliance	Fieldwork Complete	N/A	N/A
Use of Consultants	Fieldwork in progress	N/A	N/A
Main Accounting - Compliance	Fieldwork in progress	N/A	N/A
Procurement Compliance - Capital Contracts	Planning Complete	N/A	N/A

- 8.3 Since the last assurance report we have finalised our work on Treasury Management, recovery and suppressions in Revenues and Benefits and weekly fees payroll. We have completed fieldwork on a number of other audits and are well placed to complete the plan by year-end.
- 8.4 We were able to provide only limited assurance over the effectiveness of the fees payroll system. Over £3.4m of payments were made using this process in 2009/10 and we were concerned that the system provided the opportunity for officers to circumvent proper recruitment and payment processes. We had recommended that consideration be given to closing the system down and are actively engaged with senior managers who have responded positively and are currently considering how improvements in control will be achieved.
- 8.5 In addition to the above we have completed reviews on three external organisations as part of our Health Check programme assessing the risks of

grant funding allocation and spend. We have worked with partners and Council officers to respond to a number of specific issues raising concern and agree practical solutions to address risks. We consider this kind of audit may increase in future given the increased focus on integrated commissioning including engagement of the voluntary and community sector to deliver services. As noted above we are exploring the effectiveness of assurance frameworks with colleagues in Corporate Procurement, Transformation and Chief Executives as part of a wider review of CVS arrangements.




Audit Recommendations and Exposure to Risk

- 8.6 We are satisfied with progress made to implement recommendations and currently only six out of 42 critical, major or significant recommendations are not fully implemented. For the November performance dashboard we reported that 29% of these categories were implemented by the due date as at 30 September. Overall, however, we can report that 86% of recommendations in these higher risk categories have been implemented. The key focus over the next quarter is to ensure realistic timescales are agreed by managers and that they ensure actions are taken to address the risks within agreed deadlines.
- 8.7 The outstanding recommendations are split relatively evenly over a number of audits and reflect the level of audit coverage over the core financial systems. The key areas of focus for implementation include:
- development of a comprehensive travel and subsistence policy and raising awareness amongst staff and managers with HR/OD to improve levels of compliance with existing business processes and reduce opportunities for misuse;
 - implementing a plan, that has now been drafted, to reduce the number of number of Council Tax accounts in credit;
 - improving controls over payroll starters / leavers;
 - ensuring segregation of duties between SAP roles with access to financial systems;
 - further development of capital budget reporting arrangements; and
 - improving controls over the reconciliation of temporary housing benefit entitlement in CIVICA and SAP.

9. Directorate Of Transformation

- 9.1 The 2010/11 audit plan initially allocated 287 days for 15 Directorate of Transformation (DOT) audits. The main focus of the plan was ICT but work on the target operating models and Town Hall Transformation Programme which are dependent on DOT support are also included in the annual programme of work.

- 9.2 During 2010, the Strategic Director of Transformation and the previous Chief Information Officer (CIO) have worked together to develop and improve the ICT service, supporting and delivering many key priorities for the ICT Service and Council. These include establishing the ITIM board, developing the three year ICT Roadmap, supporting the implementation of the Customer Contact Centre and achievement of Government Connect accreditation.
- 9.3 One of the key challenges faced by the ICT Service was the need to permanently recruit to the post of CIO and other management posts. Following a recruitment exercise the Interim CIO was appointed to the permanent post which should provide stability in the leadership and management of the service. The new CIO has been tasked with undertaking and preparing a fundamental baseline assessment of the ICT Service and its readiness to support the Council's transformation agenda. This revised assessment has identified a number of key issues that need to be considered and whilst not an exhaustive list, key areas that need to be addressed include:
- adequacy of the ICT Budget to support service delivery;
 - reliance on the Strategic ICT Partner to fill vacancies and skills gaps within the service and reassessing the relationship with them and how work will be commissioned and outputs managed in the future;
 - understanding and implementing an efficient consolidated ICT Service;
 - understanding the scale of the investment required in the ICT estate to maintain business as usual and support the Council's transformation agenda;
 - re-assessment on the large number of projects ongoing in ICT and funding available to support the delivery of these; and
 - appropriateness of the three year ICT Roadmap.
- 9.4 The results of this assessment will be reported to the Joint Resources and Governance Overview and Scrutiny Committee and Audit Committee meeting on 2 December, which has been specially convened at Member's request to receive an update on the overall ICT Service.
- 9.5 ICT delivery will be the subject of continuing audit focus during the year to enable us to keep abreast of how the service is delivering against its business plan and the Roadmap. We are proposing ongoing coverage across a range of ICT risk areas based on the audit plan agreed by the Audit Committee in April. However we accept that there may be some refinements required to our proposed coverage based on the outcome of the 2 December meeting.
- 9.6 Detailed in the following table are audit reports that we have issued this year together with the overall assurance opinion and capacity to improve assessment.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
Internet Management and Usage	Final Report Issued	● Limited	
Control and security of ICT in flexible and agile working	Final Report Issued	● Moderate	
IT Access	Final Report Issued	● Moderate	
Information Security Policy	Final Report Issued	Advice and Guidance	N/A
Government Code of Connection Compliance (review for S151 officer)	Final Report Issued	Certification of Statement	N/A
IT Licencing	Fieldwork Complete	N/A	N/A
ICT Programme and Project Management	Fieldwork Complete	N/A	N/A
Management of the ICT Strategic Partner	Fieldwork	N/A	N/A
Customer Relationship Management System	Planning	N/A	N/A
Town Hall Transformation Programme - Contracts	Planning Complete	N/A	N/A

- 9.7 The IT Access report was issued as final on 20 September. The draft report had been subject to ongoing discussions given the obvious interdependencies between ICT and the Finance and Personnel Shared Service Centres, as well as the role of managers in dealing with starters and leavers. IT Access is not a new area of concern for Internal Audit and solutions have been sought before. The opportunities presented by changes in service roles and responsibilities across the Council need to result in a sustainable and practical solution. Given the long-standing issues together with a lack of definitive plans at present to fully address all of the risks identified in the report we assessed the capacity to improve as medium. We will review the position and progress made in January 2011.
- 9.8 Our review of the “MCC Security Framework — Detailed Information Security Policy” concluded that the policy contained a good level of detail and coverage, which was a significant improvement on the current Security Standards. However, whilst representing progress there were a number of areas which needed further consideration by the CIO. It was critical to secure meaningful input from relevant stakeholders particularly those who own policy areas detailed in the Information Security Policy, including the Assistant Chief

Executive (People), Head of Democratic Services and the newly formed Information Risk Group. We are aware that action is being taken to obtain the necessary level of input and have assisted the ICT Service by obtaining comments from the Council's Business Continuity Manager and Interim Head of Personnel to feed into this process.

- 9.9 We reviewed the Government Connect Secure Extranet (GCSX) Code of Connection (CoCo) self assessment completed by the ICT service. The CoCo must be signed by the Section 151 Officer to confirm accuracy and that the Council will implement actions to achieve compliance within the stated timescale. As a result of our review a small number of amendments were made to the submission which was then approved by the City Treasurer. The subsequent external inspection awarded the ICT Service on-going accreditation subject to progressing and implementing a number of key initiatives including the encryption of data at IL3 (a data classification level). We will consider the need to provide a further opinion on progress to resolve outstanding issues, prior to re-inspection of GCSX compliance in February 2011.
- 9.10 Our work on ICT and DOT audits is all scheduled and will progress through to March 2011. Audit opinions on IT licencing; management of the strategic ICT partner; and programme / project management will be issued in December.
- 9.11 For the planned internal and external penetration testing audit we will determine what work we will undertake after assessing the results of the monthly penetration tests currently being commissioned by the ICT Service.

Audit Recommendations and Exposure to Risk

- 9.12 24 out of 54 critical, major or significant recommendations were recorded as not fully implemented at the end of September. These all relate to audits of ICT. As a result we reported that 44% of these higher risk categories were implemented by the due date, an improvement from 35% in the previous quarter. Whilst there remain a number of critical, major and significant recommendations outstanding, we acknowledge the efforts of the Head of Operations (ICT) over the past weeks in progressing outstanding recommendations and providing updates on progress. The key areas of risk from previous report that remain to be addressed are as follows.
- 9.13 A revised Information Security Policy has been drafted but is still to be finalised and implemented.
- 9.14 Positive action continues to be taken to address the issues contained in previous Penetration testing reports. A server patching strategy is in place and weekly patch meetings have taken place since March 2009. Microsoft MBSA report scanning has been introduced as part of the patching process. Microsoft also provide the Council with five day advance notification of impending security patches. A comprehensive patching programme has been undertaken by ICT but risk remains high as patching of all servers is not completed and it is accepted that there is an incomplete understanding of all technology connected to the network. In total we understand that 16 critical,

major or significant reported risks remain outstanding. The ICT Service is actively looking to address these issues, however other interdependencies need to be addressed before they can be fully resolved. These include the upgrade of Active Directory and consolidation of staff into the ICT Service. ICT estimate a large number of these recommendations will be addressed as part of the monthly penetration tests that are scheduled to start this month.

- 9.15 Good progress has been made in addressing ICT asset and data security with dedicated resources within ICT having compiled a corporate asset register. However, there is a key outstanding action that needs to be addressed regarding the circulation and confirmation of assets held with each service head. This issue has also been the subject of recent discussions between the CIO and the Head of Finance (Governance & Corporate Support) as one of the actions in the Annual Governance Statement on which an update is required. Until these issues are addressed we assess the assurance over exposure to risk as moderate as we remain concerned that the recently completed asset register may not be fully complete or accurate. We consider that adoption of the policy of single ownership of all IT Assets by the ICT service, as detailed in the ICT strategy, is a critical factor in addressing these risks.
- 9.16 The ICT Service appointed a Contracts and Supplier Manager in April 2010 and good progress has been made in addressing the risks raised in a previous ICT contract management audit report. During 2010 the ICT Service continued to develop its understanding of all suppliers and the long term aim is to rationalise the number of suppliers which should improve accountability for delivery and may also identify efficiency savings. We consider that we can provide a moderate assurance over the current exposure to risk. The key outstanding issues in this report relate to more strategic issues with ICT that need to be addressed including understanding the ICT budget and consolidating the ICT Service.
- 9.17 Overall, there has been progress in implementing a large number of recommendations but given the scale of the challenge faced by ICT there are significant risks that remain. We are encouraged by the improvement in the rate of implementation and look forward to being able to report further improvement by the end of quarter three.

10. Anti-Fraud and Investigations

- 10.1 Internal Audit focus continues to be on 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. 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.

Proactive

- 10.2 Proactive anti-fraud work has included the review of the weekly fees payroll system, payments to employees, cash handling and individual budgets referred to in the directorate summaries above. In addition work is continuing to refresh corporate fraud and related policies and procedures. Audit work on duplicate payments has been planned and will start in December.

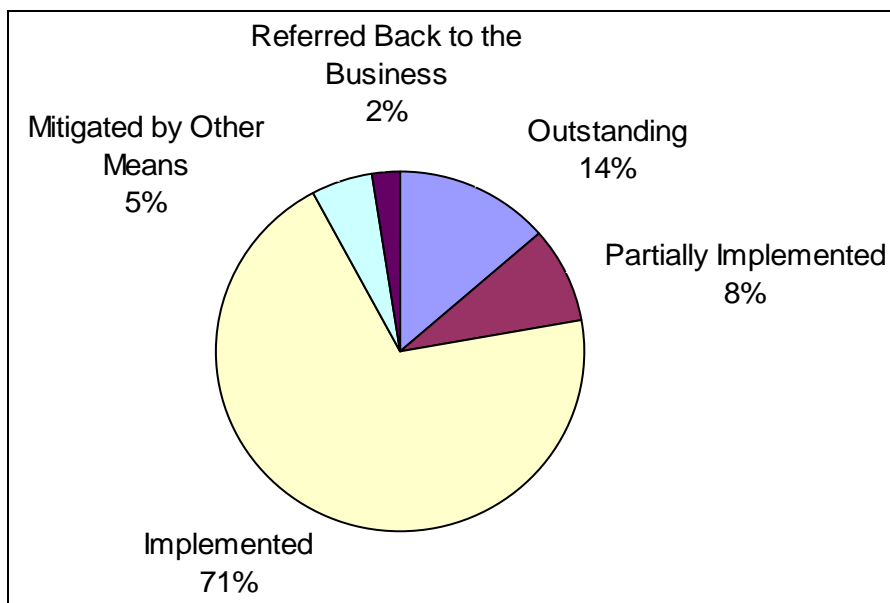
Reactive

- 10.3 In addition to ongoing investigations into cases started in 2009/10 Internal Audit has been made aware of 34 cases of potential fraud and irregularity so far in 2010/11. These have been investigated by officers within the service or in conjunction with service managers and/or the police. Key themes in the period are similar to the previous quarter and include the following:
- Concerns raised in respect of the operation of community and voluntary sector groups including a lack of effective governance, financial management and record keeping.
 - Financial frauds including theft of money and assets from Council and school premises, cheque fraud and attempted payment frauds.
 - Processes for the award and monitoring of contracts.
 - Financial irregularities and fraud relating to the use of individual budgets and cash handling on behalf of adult social care customers / clients.
 - Matters relating to employment and grievance cases.

11. Implementation of Recommendations - Overview

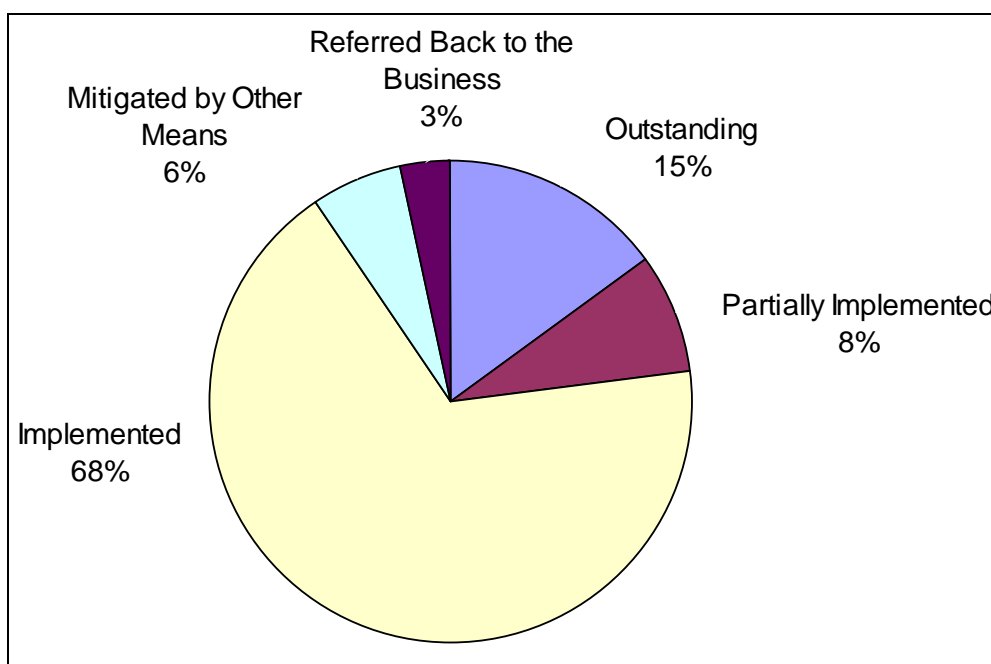
- 11.1 All final Internal Audit reports include management action plans to address agreed recommendations. The effective implementation of these action plans within timescales determined by management is essential if the risks identified during audit work are to be managed effectively. As described above, we undertake regular review and assessment of progress with business owners. The status of recommendations is shown in the following table, based on figures reported to business managers for the period April to June 2010 and submitted for inclusion on the new performance dashboard.
- 11.2 At 30 September there were 674 Internal Audit recommendations of which 582 were due to have been implemented. The implementation status for these is shown below.

Diagram 1 – Implementation Status of the 582 Internal Audit Recommendations Due at 30 September 2010



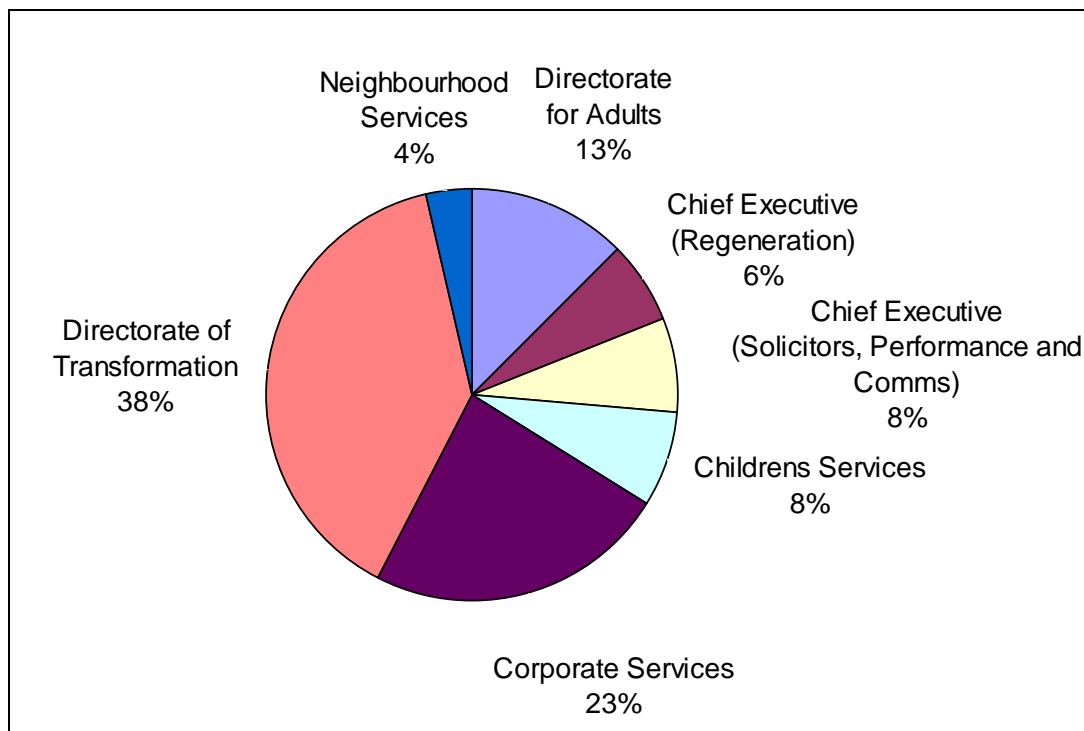
- 11.3 Overall we have seen further improvement on the percentage of outstanding recommendations reported since the 30 September Audit Committee. 71% have been implemented and risks relating to a further 5% of recommendations have mitigated by other means.
- 11.4 22% of recommendations have only been partially implemented or remain outstanding compared to 33% reported in September and 41% in June.
- 11.5 Performance dashboard reporting focuses on critical, major and significant risks as these represent a greater overall risk. The position on implementation in respect of these categories of recommendation is shown below.

Diagram 2 – Implementation Status of Critical, Major and Significant Priority Internal Audit Recommendations Due at 30 September 2010



- 11.6 The split of the 14% of outstanding recommendations in diagram 1, by directorate, is shown below. The greatest proportion of recommendations relate to the Directorate of Transformation and in particular ICT as referred to in section 9 above.

Diagram 3 – Split of Outstanding Recommendations by Audit Group Area



- 11.7 It is not unsurprising that ICT and Corporate Services have the highest numbers of recommendations outstanding given that these areas are where the greatest number of recommendations have been made and are being monitored. To give a sense of scale it is worth noting that at 30 September, of 582 recommendations that Internal Audit was monitoring 178 were in Corporate Services (of which 19 are now overdue), 102 in Childrens Services (6 overdue) and 85 in ICT (31 overdue).

- 11.8 In line with Internal Audit’s policy for recommendations which have not been implemented within 12 months of the agreed due date, we have referred risks back to the business in respect of 14 recommendations. This requires formal 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.

- 11.9 Internal Audit acknowledges that managers are taking steps to manage risks and we are encouraged to see an increase in the numbers of implemented recommendations and a reduction in those outstanding. However, we will continue to seek to improve this position through regular monitoring and follow up with managers. The quarterly progress reporting to directorate senior management teams, corporate performance dashboard being used within

Strategic Support and Challenge Sessions as well as the ongoing scrutiny by the Audit Committee is helping to raise the profile of recommendation implementation with managers and we are confident that further positive progress will be made during the remainder the year.

Exposure to Risk

- 11.10 Internal Audit monitor progress towards 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.
- 11.11 Demonstrating the effective implementation of audit recommendations remains a challenge for the Council for a variety of reasons:
- Changes in structures, staffing and approach across all directorates and the national environment arising from the coalition government's new policies 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.
- 11.12 Action has been taken to implement a large number of recommendations. Management responses and the level of evidence provided to confirm implementation continues to improve but is inconsistent and there are often delays in obtaining sufficient evidence to evaluation completion. We anticipate that changes in the way we engage with senior managers should start to have a positive impact in these areas and Internal Audit will continue to work with all Heads of Service and Strategic Directors to ensure managers continue to manage identified risks and implement recommendations.

12. Conclusions

- 12.1 Members are asked to note the Internal Audit Assurance Report for the year to November 2010.