

**MANCHESTER CITY COUNCIL
REPORT FOR INFORMATION**

Report To: Audit Committee - 11 March 2010
Subject: Head of Internal Audit Annual Assurance Report
Report Of: City Treasurer / Head of Internal Audit and Risk Management

PURPOSE OF REPORT

To provide Members of the Audit Committee with the Head of Internal Audit and Risk Management's Annual Assurance Report.

RECOMMENDATIONS

Members are requested to consider and comment on the Head of Internal Audit and Risk Management's Annual Assurance Report for 2009/10.

FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS:

None

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BACKGROUND DOCUMENTS

Internal Audit Plan 2009/10

WARDS AFFECTED N/A

IMPLICATIONS FOR KEY COUNCIL POLICIES

Anti-poverty **Equal Opportunities** **Environment** **Employment**

None None None None

1. Background to report

- 1.1. The Chartered Institute for Public Finance and Accountancy Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (The CIPFA Code) established the expected professional standards for internal audit in local government. The CIPFA Code is informed by standards from other professional institutes, including the Institute of Internal Auditors (IIA) and the Government Internal Audit Standards (GIAS) issued by HM Treasury, and is the standard against which the quality of internal audit in local government is assessed.
- 1.2. The CIPFA Code sets out the requirement for reporting to officers and Members of the Audit Committee to help inform their opinions on the effectiveness of the system of internal control as well as risk management and governance arrangements.
- 1.3. This report provides the Head of Internal Audit and Risk Management's assurance opinion on the adequacy and effectiveness of Manchester City Council's internal control arrangements for the year April 2009 to March 2010.
- 1.4. The Annual Assurance Statement contributes to the annual review of internal control required by the Accounts and Audit Regulations 2006 and to the completion of the Annual Governance Statement (AGS). It is specifically timed to be considered as part of the Council's annual review of governance and internal control. Whilst this timing means that some audit work is incomplete a detailed Internal Audit outturn report for all activity in the year and a report on the effectiveness of Internal Audit will both be reported to the Audit Committee in June to fulfil the requirements of the Accounts and Audit Regulations (2006) and the CIPFA Code of Practice (2006).
- 1.5. This report highlights matters for consideration and refers to audit plans for ongoing activity in areas of concern. The report is broken down into an overall opinion and a summary of assurance for each functional area of audit work. The extent and direction of audit coverage is driven by assessment of risk and, by necessity, available resources.

2. Overall Opinion

- 2.1 Based on the programme of planned Internal Audit work and other than in respect of a number of significant control issues that have arisen during the year, the Head of Internal Audit and Risk Management can provide **substantial** assurance that the Council's systems of governance, risk management and internal control are generally sound and operate reasonably consistently across departments.
- 2.2 The key governance, risk management and internal control issues of which Internal Audit have been made aware during the year were as follows:
 - Schools closing, transferring to new premises and moving to Academies presented significant concerns in the year. Controls over the preparations

and execution of plans for closing schools raised financial management, asset management, purchasing and security issues across a number of projects. Management actions have been taken and are ongoing to prevent reoccurrence of similar issues in future.

- Recent audits of safeguarding records in Adults and Children's Services identified significant non-compliance with documentation standards in the new MiCare system. Adult Services in particular gave rise to some significant concerns but we can confirm that management responded to our reports promptly and agreed a series of urgent actions to be taken to reduce the Council's exposure to risk in this area.
- Financial management, procurement and governance issues were identified in a number of different audits of schools in the year. Whilst progress has been made in developing support and challenge mechanisms in the year the inherent difficulties in driving school improvement means there are ongoing risks in these areas.

2.3 In a Council of Manchester's size and complexity, with its significant change agenda, there is a heightened risk of breakdown of control particularly where roles and systems are changing. Where audit work has highlighted areas for improvement recommendations have been made to address the risk and management action plans agreed. The key elements of this are detailed below.

3. Internal Audit Activity

Corporate Services

Core Financial Systems

- 3.1 Work is largely complete on all of the key controls in the core financial systems. Remaining audits will be completed in year as agreed with the Council's external auditor. Substantial assurance can be provided over most of these systems including creditors, general ledger, treasury management, cash, payroll and Council Tax. This was also the case in our risk based audit of Council Tax exemptions and discounts, and in the assessment by Internal Audit, External Audit and the Audit Commission of progress made in the implementation of International Financial Reporting Standards (IFRS). Most of the issues raised in these and in ongoing audits relate to compliance with standard procedures within what are well designed and robust systems of control.
- 3.2 Whilst positive opinions were issued we recognised some uncertainty over capacity to improve controls given the impending transfer of cashiering functions to the new Customer Service Centre. The implementation of some of our recommendations will be undertaken following this transfer and as such we have reported that these are areas that warrant closer management scrutiny to ensure controls in the new operation continue to be robust.

- 3.3 The completion of the finance restructure within the year has been positive and the implementation of the Personnel / Payroll and Financial Shared Service Centres is changing the way financial systems and processes at the Council are being delivered to improve efficiency. A number of the systems we audited were in a process of transition. A restructure of personnel functions is ongoing and Internal Audit's review of the People Strategy was undertaken during this period of transition and will feed into a refresh of the document and supporting action plans in 2010.
- 3.4 The embedding of SAP in business processes continues to present a number of challenges. When applied appropriately, controls in the system are efficient and effective but there have been examples where non-compliance with controls has resulted in errors or inadequate evidence of decision making. This was reflected in our audit of recruitment compliance where SAP was not always used to record evidence of decision making, making it difficult to fully demonstrate management actions. Similarly there have been examples of poor financial management brought to our attention where the review of documents in SAP prior to approval has been insufficient to demonstrate robust application of management oversight and approval. We have also seen evidence of this in recent compliance audits of expenses and of the use of purchase cards. The good system controls and clear guidance from the Finance Shared Service Centre, for example through the use of no-PO no Pay policy, has nonetheless helped consistency and further improved the rigour of financial management across the Council.
- 3.5 Overall our work supports the conclusion that controls over the core financial systems are generally sound and operating as intended. Further assurance will be provided as part of the 2009/10 external audit.

Other Corporate Services

- 3.6 Given the restructure of personnel functions within the year, impact of the Analyse and Improve Manchester (AIM) project and other initiatives across the Council the audit of the People Strategy identified the need for a refresh of the document in light of these developments. This refresh will take place during 2010 and presents a positive opportunity to consolidate the Council's workforce development aspirations in a clear and concise statement of intent.
- 3.7 On a detailed level our audit of compliance with recruitment processes demonstrated the need for improved compliance with standard documentation procedures across the Council. A particular area of concern from our testing was a lack of evidence that employee identity and Criminal Records Bureau (CRB) checks had been completed when required. These findings linked to other findings in reviews taking place in Children's and Adult Services. As a result we issued the consolidated findings to the Head of Personnel and are pleased that following senior management engagement immediate actions were taken to address potential risks in these services.
- 3.8 Arrangements for the monitoring and management of external funding were the subject of external audit recommendations in 2008 and our audit work in this area acknowledged progress made in the appointment of a grants

coordinator and implementation of a protocol to help ensure consistency of approach. The ability to sustain the positive momentum in this area was impacted by the finance restructure and whilst acknowledging that progress continues to be made clarity over resource requirements is needed to ensure that the Council capitalises on opportunities for further improvement.

- 3.9 On both revenue and capital contracts, the Council continues to maintain an excellent reputation for leadership, delivery of savings and collaborative working. This is reflected in the ongoing work of the Head of Corporate Procurement and the Capital Programme Director both of whom have led collaborative working across the region during the year. The North West Construction Hub project for example will make capital framework contracts available to other North West public authorities. The Council has led this project and whilst our audit work in this area acknowledged the need to develop compliance with expected project management standards management have agreed appropriate actions to mitigate risks to the Council in the delivery of this project.

4. Transformation

ICT

- 4.1 At the start of 2009/10 it was clear that the ICT service faced a number of significant challenges. Following the Conficker virus and data security issues in 2008/09 the Council appointed a Chief Information Officer (CIO) and has invested in the stabilisation and enhancement of ICT services. During the year there have been positive developments including the deployment of anti-virus across the ICT estate, improved security of network infrastructure, patching of servers and strengthening of resources through a restructure, the recruitment of staff and the appointment of a strategic ICT partner.
- 4.2 These improvements have impacted positively on the management of risks to the ICT service as well as enabling the Council to demonstrate actions have 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 safeguard personal and sensitive data. We consider that this good progress provides a solid platform that can be used to further embed information governance during 2010/11.
- 4.3 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 robust ICT service whilst actively supporting the Council's transformation and service improvement ambitions. From this low starting point and against the backdrop of competing demands and challenges it is 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.

4.4 Audit reports on ICT supplier and contract management, lifecycle management, penetration testing and ICT security, have provided limited assurance over the controls currently in operation compared to expected practice. Nonetheless they represent a positive direction of travel and significant improvement from the position at the start of the year. The capacity to improve these opinions is not wholly within the gift 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;
- Standardisation, upgrading and mapping of the ICT estate including implementation of an agreed standard for device and server build;
- 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; and
- Fully embedding ICT governance and project management arrangements.

4.5 Overall there has been a sustained improvement in the management of ICT risks throughout the year but the CIO is fully aware that challenges remain. The successful implementation of the ICT roadmap and delivery against key targets and objectives will therefore be the subject of continuing audit focus during 2010/11.

Transformation

4.6 The Directorate of Transformation (DOT) includes ICT and this has been the primary focus of formal audit work in the year but we acknowledge that delivery in other areas of directorate responsibility are equally critical in supporting the Council's transformation agenda. During the year the directorate was restructured, renamed and refocused from its previous incarnation as the Manchester Improvement Programme. The delivery of the Analyse and Improve Manchester (AIM) programme has identified significant opportunities for service improvement and efficiencies that have been formalised through the creation of new target operating models for each directorate. These set out the transformation plans for all services and are an integral component of the Council being able to delivery its required efficiency savings over the next three years.

4.7 The Town Hall Complex Programme is also integral to the transformation journey. The programme is well underway with comprehensive governance arrangements, programme plan and project plans in place and with staff appointments having been made. 2010/11 will see the decant from the Town Hall Extension and Central Library with staff moving to new premises at First Street and other locations across the city. The scale and ambition of the programme presents ongoing challenges and whilst Internal Audit work is

currently focussed on the decant arrangements there will be increasing focus on contracting, project and risk management over the next 12 months.

- 4.8 Overall, Internal Audit work within the Directorate of Transformation during the year has largely been maintaining a watching brief of developments offering comment and advice where appropriate on potential risks. There are inherent risks in the scale and ambition of the changes to be delivered through the directorate over the next three years and as a result there will be further coverage to evaluate progress in the delivery of the target operating models and the town hall complex transformation programme in 2010/11.

5. Regeneration

- 5.1 Within the regeneration area, audits of congestion management, worklessness and Housing Growth Point characterise how the directorate works positively with Greater Manchester partners in the delivery of objectives. Whilst work is ongoing in Growth Point, the other audits helped highlight the need for clarity of roles and responsibilities with partners, within partnerships and within the Council, supported by appropriate management information. This clarity should maximise the positive opportunities presented through joint working and ensure that risks to the delivery of objectives are managed appropriately.

- 5.2 There have been three detailed audits within Housing covering the housing ICT system (CIVICA), decent homes and homelessness housing benefit. Given the strategy for housing within Manchester and range of approaches being used, including the establishment of an ALMO and number of PFI schemes, there are a range of sources of information for the recording, collection and collation of data in respect of housing and decent homes. Whilst the different mechanisms being used to raise the standards of housing in the City were clearly consistent our work identified the need for further standardisation of the approach to data and information management within CIVICA and other systems. Clarity of roles and responsibilities in terms of reporting and in particular the administration of homelessness housing benefit was also raised as an issue as responsibilities for different aspects of the process spanned three directorates and the process lacked oversight. Positively, all three of the reports have been agreed directly with the Director of Housing who is taking forward actions to address these issues.

6. Children's Services

Children's Services

- 6.1 Children's Services is a very fast moving directorate, responding to government priorities, legislation and service improvement objectives with significant amounts of change evident throughout the year. This change activity makes it inherently difficult for the service to fully and consistently embed management arrangements at all levels in all areas. Our audit activity in the year has demonstrated there is a clear view of the strategic direction of

the service with this evident in our safeguarding, attendance, Children's Trust and academies audits. The service has clear direction and is engaged positively with key partners and it is only in the operational delivery of actions to support priorities where audit work identifies areas for further improvement.

- 6.2 We reviewed the approach to safeguarding children and completed a compliance audit of casework management. The Council's activity to safeguard children was well supported by a clear strategic direction, effective management, reporting and governance arrangements and an appropriate level of multi-agency involvement. However, as referred to in paragraph 3.8, we identified issues with CRB check processes with a significant number of staff lacking evidence of current CRB checks. We were however pleased that upon the identification of these concerns prompt management action was taken to address these risks. Risks remain based on issues identified in our 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 being taken. We acknowledge that casework was migrated to a new system (MiCare) during the year and, as with any new system or approach, it would be expected that compliance would improve over time. Nonetheless, given the potential risks we consider this to be a significant issue and can confirm that this is being treated as such by management.
- 6.3 Our audit of school attendance highlighted the need to further develop links between the high level attendance strategy objectives and operational activities. Despite significant activity and the development of an attendance strategy improvements in attendance rates had yet to be realised.
- 6.4 Contact Point is a national database developed by the Department for Children, Schools and Families (DCSF) to hold basic records for every child aged between 0 and 18. Our audit of the project confirmed that Contact Point was being successfully developed in Manchester fully in line with DCSF requirements but there was a need to develop a plan to integrate the use of the database into standard business processes. As a result we provided limited assurance but have been impressed by the subsequent work undertaken to address our reported concerns.
- Schools*
- 6.5 One of the key challenges for Children's Services in the year has been the move of four Secondary Schools to Academies and the roll out of the Manchester Academy model. The Manchester Academy model is clear and there are currently strong relationships with each Academy. However we raised the need for arrangements for sustaining these relationships, supporting Strategic Directors who represent the Council on Academy Boards and ensuring appropriate partnership governance arrangements are in place.
- 6.6 The four Academies were amongst seven closing schools that we audited within the year. These audits raised significant concerns around the readiness for closure and a lack of engagement with the local authority, particularly over the control of assets and agreement of closing financial positions. These concerns were increased by the subsequent audit work undertaken

immediately prior to closure which identified poor financial management decisions. We have worked closely with Children's Services to ensure the lessons learned from these closing schools have been used to develop stronger processes. Improvement can be seen in the development of a stronger project management approach to closures however inherent risks remain and we consider it essential that the Council maintains timely and effective communications with schools leading up to closure.

- 6.7 Other audits undertaken in schools in 2009/10 have continued to raise issues around governance. These are being further tested in the completion of external assessment of 50 primary and secondary schools against the Financial Management Standard in Schools (FMSiS) that will be completed by the end of March. However the establishment of School Improvement Partners, School Effectiveness Officers, Schools Finance Board and other internal arrangements has had a positive impact on improving lines of internal communication and intelligence sharing to enable issues to be considered and addressed more effectively. There has recently been a proposal developed by Children's Services following a government white paper entitled "your child, your Schools, our future" which could impact very positively and fundamentally on school governance across the City with the development of clusters of schools under single governing bodies. If agreed these proposals would also see the approach to school effectiveness changing fundamentally and 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 these proposals develop.

7. Adult Services

- 7.1 The personalisation agenda has driven a period of significant change within Adult Services over the last 12 months, including the large scale restructure of services and strategic approach to delivery. The changes have resulted in revisions to staffing structures, governance arrangements including the establishment of Adult Services as a separate directorate and changes in personnel and areas of responsibility within the Senior Management Team. We consider that these changes and the recent appointment of a permanent Director of Adult Services should provide valuable stability during this period of ongoing change.
- 7.2 Our audit activity undertaken during the year has indicated that management have a clear view of the strategic direction in which the service is moving and continue to liaise with stakeholders and key partners, especially health. Whilst operationally we have identified some good practice, in the safeguarding vetting and barring review we have identified significant concerns regarding compliance with procedures as follows:
- Whilst policy and procedure documentation had been introduced to ensure appropriate controls were being operated when handling cash on behalf of service users, there were inconsistencies in record keeping and documentation of decision making. These issues and the absence of assurance programme to confirm compliance were being addressed and

were an area that management were aware of from previous service and audit investigations. Further assurance will be sought during 2010/11 to confirm compliance with these controls.

- A review of safeguarding casework management identified significant concerns over the maintenance of records within MiCare, including evidencing of meetings, decisions taken and approvals. This work concurs with findings from a previous Commission for Social Care Inspection (CSCI) completed in January 2008 and an internal assessment of records undertaken by the service. Whilst presenting real concerns we can confirm that these issues have been acknowledged by management who have taken immediate actions to reduce the risks in this area as set out in a report to the Chief Executive and Strategic Management Team.

7.3 We acknowledge that this year has been one of transition within Adult Services that is likely to have impacted upon the results of reviews undertaken. However, given the increased financial and reputational risks facing the Council as a result of the above findings it is essential that management continue to work towards the development of a robust internal control framework.

8. Neighbourhood Services

8.1 Following the Conficker virus in early 2009 we are pleased that work has been ongoing to further strengthen the Council's business continuity arrangements including the introduction of a business impact analysis process and the inclusion of business continuity within business planning guidance and service plans. During the year, we were also able to provide substantial assurance that an effective response plan had been developed, supported by strategic senior management groups and that swine flu plans for critical services had been tested in a timely manner. The business continuity arrangements were tested further during the extreme weather conditions in January and we acknowledge that the Council's ability to respond to such events and ensure continuity of service provision continues to be enhanced.

8.2 We are able to report positively on progress made in developing action plans to support delivery of the environmental and green strategies for the Council and acknowledge that the appointment of a Head of Service in the year has provided clarity over the practical delivery of the green agenda across the City.

8.3 We are currently completing audits on CCTV (Bus Lane Enforcement), green city delivery and waste management, the results of which will be included in the Internal Audit Annual Report in June.

9. Performance and Governance

Performance

- 9.1 Arrangements over data quality across the Council have been strengthened in the year. This was reflected in the Use of Resources assessment in 2009 and further demonstrated in the self assessments produced for 2010. Corporate Performance have made significant progress in strengthening the guidance and processes for data quality and this is supported by audit testing.
- 9.2 Reporting arrangement continue to be developed with positive analysis of risks and performance issues integrated into reports to management and SMT. These arrangements will be further enhanced with the integration of key measures of performance within business planning support and challenge sessions throughout 2010/11. Business planning has also developed positively in the year for example. The integration of business continuity planning, workforce and equality planning within the guidance and plan templates has helped achieve consistency and the use of directorate support and challenge sessions has helped ensure robust peer, SMT and Member challenge to business planning options and proposals.
- 9.3 Work on the Manchester Partnership and Local Area Agreement indicators has been positive and relatively minor housekeeping recommendations are being implemented.
- Governance*
- 9.4 Responsibility for oversight of the Council's governance arrangements in the year was provided by the SMT Governance sub-group. This group, chaired by the Deputy Chief Executive (Performance), demonstrates the status afforded to the development of governance and has helped to ensure sustained progress in the completion of actions agreed through the Annual Governance Statement process. The reporting of progress through this group, reporting to Members and the actions actually taken to address AGS have all been positive developments in the year.
- 9.5 The integration of the AGS and business planning process has also been positive and provided early assurance over compliance with key governance requirements. Further assurance over the AGS process and partnership governance arrangements will be delivered by Internal Audit in advance of AGS approval in June.
- 9.6 Audits of compliance with the Freedom of Information Act and Data Projection Act were largely positive with some concerns raised over compliance with deadlines and confirmation of the identity of persons requested data. These areas for improvement were in part a result of the diligent and comprehensive approach taken to ensure requests were fully met. Compliance with a re-launched policy for officers gifts and hospitality demonstrated the need to further develop the transparency of decisions and in particular the declining of offers. This work did not identify any concerns in respect of actual gifts or hospitality received and we consider the refreshed process and clear SMT engagement to have been supportive steps in the year.

10. **Investigations**

- 10.1 No organisation can guarantee that it will be free from fraud or financial irregularity, the extent of which can be a measure of the effectiveness of internal controls. Internal Audit has carried out a number of investigations referred during the year, either independently or by offering advice and support to managers and investigating officers. The work included examination of matters 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.
- 10.2 Internal Audit has had a dedicated Lead Auditor for anti-fraud and we have worked with services across the Council to further develop arrangements for managing and responding to fraud risk. This has included pro-active fraud and compliance reviews on the core financial systems that have highlighted errors and non-compliance rather than fraud. This is work that will continue in 2010/11. There have also been cases of creditor payment issues that have resulted in investigations and where appropriate the recovery of funds.
- 10.3 Work has included facilitation of the National Fraud Initiative exercise and whilst matches have been identified and are being addressed there are no significant systemic issues to report. The process has identified issues of concern over inappropriate retention of disabled parking badges as well as some complex cases involving right to buy and immigration issues that are being actively progressed.
- 10.4 Support has been provided to Adult Services in the investigation of former staff members in cases of alleged financial misconduct. These investigations have identified control and compliance issues that expose the Council to potential financial, regulatory and reputational risks. Steps have been taken to improve the systems of control and further audit work will be required in this area in 2010/11.
- 10.5 This year has seen a rise in the number of reported thefts of cash and assets from schools and Council offices as well as several frauds against individual school bank accounts involving the interception, alteration or use of counterfeit cheques to obtain funds. Where possible these cases have been investigated and referred to the police for potential criminal prosecution.

11. Recommendation Monitoring and Implementation

- 11.1 A revised approach to the monitoring of implementation of audit recommendations was introduced in 2008/09. This clarified the responsibility of managers and of Internal Audit as well as the timescales for reporting. This has been further embedded through 2009/10 and by the end of November there were 79 outstanding recommendations. This compared favourably to the 127 outstanding at 15 September and reflects increased management focus on timely implementation and reporting of actions to mitigate risks. Particularly pleasing has been the reduction in the numbers of outstanding high risk recommendations. A full Implementation Update Report including

progress to implement recommendations and exposure to risk will be reported to Audit Committee in March 2010.

- 11.2 Overall, Internal Audit considers that appropriate actions are being taken to address recommendations in most business areas but will continue to monitor and report progress and to escalate issues over progress to senior management and Audit Committee as appropriate.

12. Conclusion

- 12.1 This summary opinion relates to audit activity in 2009/10. Members are requested to note the assurance opinion and activity, and to consider whether or not there are any matters which have been raised which require more specific consideration by the Committee or referral to the appropriate Scrutiny Committee.