
**MANCHESTER CITY COUNCIL
REPORT FOR INFORMATION**

Report To: Audit Committee – 11 March 2010
Subject: Internal Audit Recommendations Progress Monitoring
Report Of: City Treasurer / Head of Internal Audit and Risk Management

PURPOSE OF REPORT

To provide Members of the Audit Committee with an update on the implementation of Internal Audit recommendations.

RECOMMENDATIONS

Members are requested to consider and comment on the recommendations progress monitoring report.

FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS

None

CONTACT OFFICERS

Richard Paver
Tom Powell

Tel Number

234 3564
234 5273

E-Mail Address

r.paver@manchester.gov.uk
t.powell@manchester.gov.uk

BACKGROUND DOCUMENTS

Internal Audit Plan 2009/10

WARDS AFFECTED

None

IMPLICATIONS FOR KEY COUNCIL POLICIES

N/A

Anti-poverty Equal Opportunities

None

None

Environment

None

Employment

None

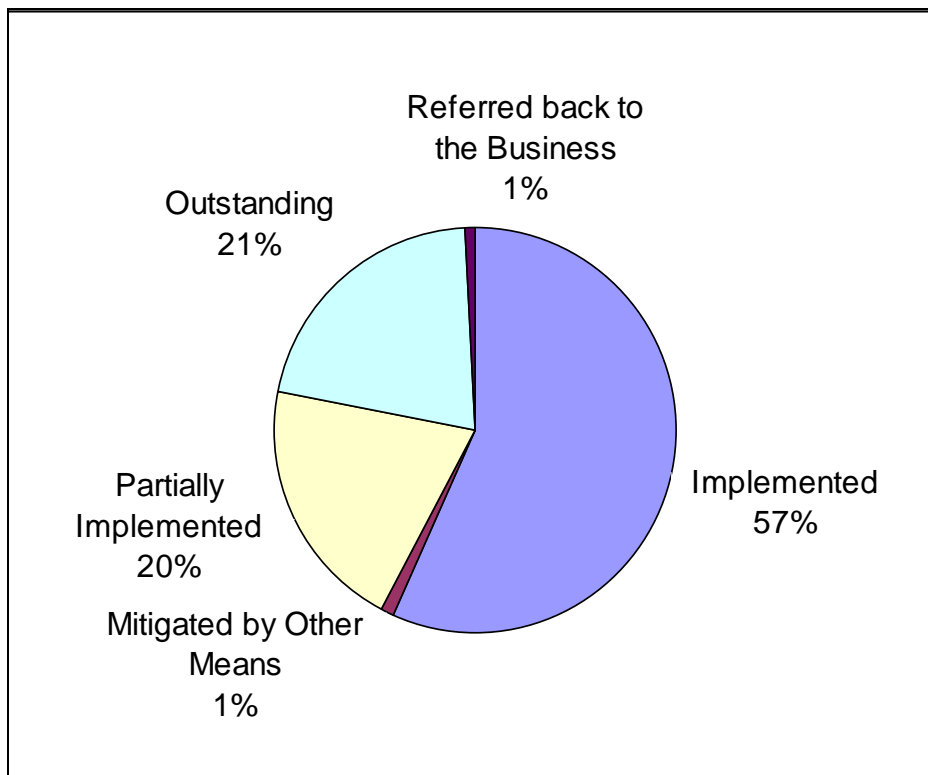
1. Introduction and Background

1.1. All final Internal Audit reports include management action plans to address agreed recommendations. The effective implementation of these action plans within timescales determined by management is essential if the risks identified during audit work are to be managed effectively. Internal Audit undertakes follow-up work on all recommendations and reports progress to Audit Committee on a quarterly basis. This report provides an update on implementation as at 5 March 2010.

2. Status Update

2.1. A total of 411 recommendations have been made by Internal Audit of which 357 were due for implementation by 5 March 2010. The current status of these is shown below in Diagram 1 below.

Diagram 1 – Implementation Status of Internal Audit Recommendations



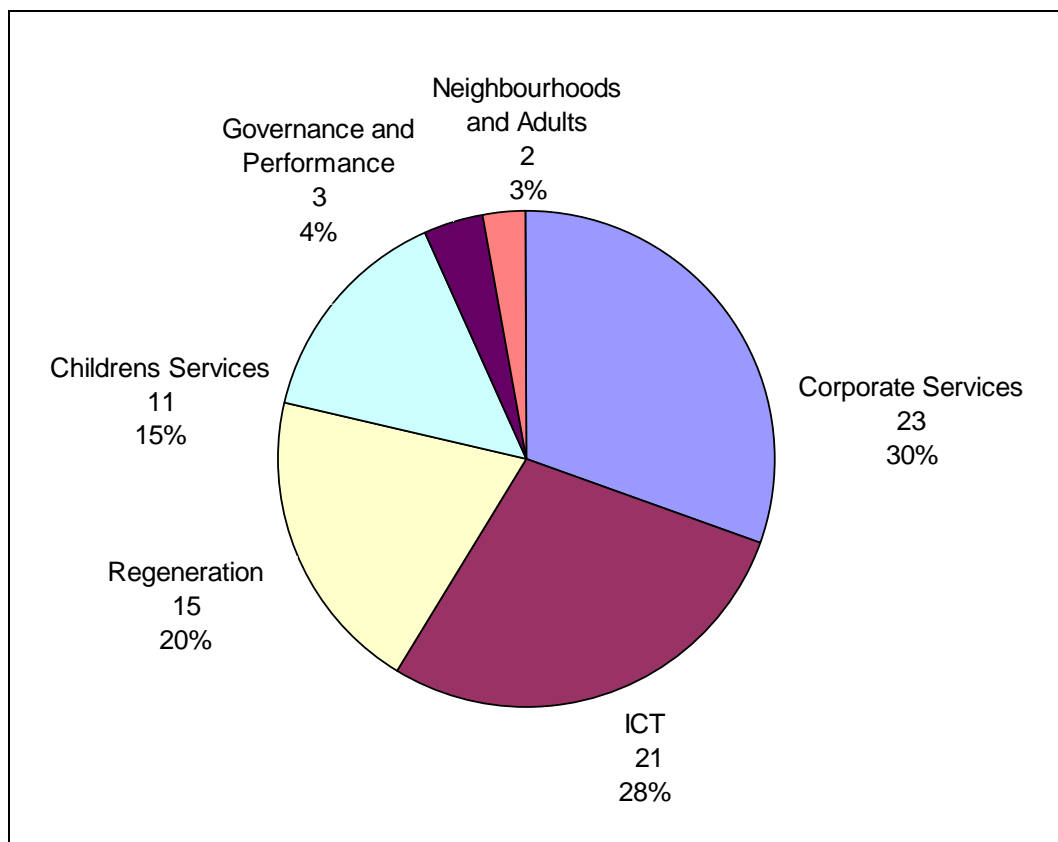
2.2. Internal Audit has verified that 202 of these recommendations have been implemented by actions evidenced to Internal Audit by management. The risks referred to in four further recommendations were mitigated through the establishment of other appropriate controls.

2.3. There has been some progress and therefore partial implementation for 73 recommendations (compared to 54 in December). Some of the work to be done involves multiple actions, such as the production and dissemination of guidance and delivery of training or advice. In these circumstances, Internal Audit assess recommendations as partially complete when aspects of the recommendation,

such as the development of draft guidance, have been completed by the due date and continue to monitor progress until action is complete. Internal Audit acknowledges that managers are taking steps to manage risks progress in ensuring full implementation of actions has been slower than had been agreed. It is important that realistic timescales and action plans are agreed with Internal Audit as part of the action planning and any risks to meeting those deadlines are highlighted as soon as possible to SMT and Internal Audit.

- 2.4. In line with Internal Audit's policy for recommendations which have not been implemented within 12 months of the agreed due date, we consider the need to refer some risks back to the Business. Three referrals have been made and others are being considered. When Internal Audit refer recommendations back to management this requires formally acknowledgement that management understand and accept the exposure to risk. These matters should be considered by them as part of business risk planning and Internal Audit will re-assess the risks as part of audit planning in the coming year.
- 2.5. At 5 March 2010 there were 75 of outstanding recommendations which had missed the implementation dates agreed (compared to 79 in December). These relate to Directorates as shown in Diagram 2 below. Internal Audit continue to follow up with management to establish and assess the reasons for this.

Diagram 2- Outstanding Recommendations by Audit Group Area



3. Exposure to Risk Assessment

- 3.1. For information, the reports with the greatest number of recommendations currently outstanding or partially implemented (as shown in parentheses) are as follows.

Corporate Services Audit Area: Income Management (6)

- 3.2. Of 15 recommendations in this report, eight have been implemented, six partially implemented and one has been superseded by work on AIM. These relate to the implementation of standard key controls in order to effectively manage debt income. Specifically, completion of the debt recovery policy, completion of detailed procedures notes, development of performance management information and clarity over supporting information to support the write-off of bad debts. Sickness absence in a key management post originally delayed implementation of these recommendations and we are satisfied that progress is now being made.

Corporate Services Audit Area: Open Book Accounting (3)

- 3.3. Whilst a number of open book accounting reviews have been successfully undertaken in Corporate Property and Capital Programme Group, sickness absence was a key factor attributed to delays in the development of procedures, guidelines and training in this area. One recommendation was referred back to the business in December. Internal Audit are reviewing progress in this area with the Capital Programme Director.

Corporate Services Audit Area: Project Management Methodology (5)

- 3.4. This audit focussed on compliance with the Council's project management methodology and the outstanding recommendations were for the introduction of assurance mechanisms to help ensure the agreed method was used consistently across all projects and all directorates. Until such time as controls are implemented there is an ongoing risk that the method may not always be used on all projects. We are concerned at the on going absence of progress in this area.

Corporate Services Audit Area: Recruitment – Compliance

- 3.5. This audit was completed recently and of eight recommendations due for implementation there had been implementation on one and action toward implementation on seven. We are pleased to see management taking action to address exposure to risk in this area but there is still work to do.

ICT Audit Area: Departmental Information Security (4)

- 3.6. This report was issued in September 2007 and seven recommendations have been implemented. However there remains an exposure to risk as a comprehensive Information Security Management System is not in place and there is a lack of assurance that staff are aware of all requirements in terms of information security and risks around confidentiality, integrity and availability of

information and information systems. Security is an area that the recently appointed ICT Strategic Partner will take this forward and implementation is forecast for 30 April 2010.

ICT Audit Area: Penetration Testing (9)

- 3.7. Positive action has been taken by ICT to addresses the issues contained in the report. Nine recommendations have been fully implemented or mitigated by other controls and two have been partially implemented. A server patching strategy is in place and weekly patch meetings have taken place since March 2009 with Microsoft report scanning introduced as part of the patching process. A significant programme of patching has been undertaken by ICT but a level of risk remains as further work is required to demonstrate full assurance over the security of all technology connected to the network. Nine recommendations remain outstanding and exposure to risk remains. To assess this risk further audit work has been completed on penetration testing which has highlighted further system issues to be addressed.

ICT Audit Area: Policy and Technical Review of E-Mail Management (7)

- 3.8. Key recommendations which remain outstanding include monitoring of internal mail, encryption of mail and retention policies for emails. Performance and stability issues over the mail system are also a particular concern at this time and part of the solution is an upgrade will enable a number of the recommendations to be implemented. The due date for this is 30 April 2010.

Children's Services Audit Area: The Manchester Federation of Special Schools (9)

- 3.9. The exposure to risk has been reduced by the agreement of a scheme of delegation and the management have confirmed that the remaining major priority recommendations have been implemented. It is also clear that there has been significant work in agreeing and clarifying financial management roles and responsibilities and reporting lines within the federation although we await the evidence to clarify that these fully address the reported risks. There are a number of outstanding recommendations around operational financial management that contribute to the continuing exposure to risk in this area. Concern remains that these recommendations are not yet implemented and there has been no update for some time. Internal Audit has been asked to meet with the Chair of the IEB in March 9.

Children's Services Audit Area: Children Missing from Education (7 partially implemented)

- 3.10. There has been significant work undertaken already to reduce the exposure to risk with three recommendations fully implemented and a number of the remaining seven being close to full implementation. Progress had been hampered by delays to the establishment of the integrated admissions service but management have confirmed that actions have been taken to address implementation. There is now one database for recording CME activity and the number of CME cases and back log of work has been significantly reduced.

Revised structures show a significant increase in the resources available to deal with CME with work progressing well on a performance management framework. It is accepted that there remains a significant risk however the progress made with all recommendations shows that the service is moving in the right direction to further reduce the exposure to risk. Internal Audit have asked for further evidence to confirm implementation.

Children's Services Audit Area: Contact Point (5)

3.11. Progress has been made to implement recommendations but there is a need to maintain momentum on implementation. We have been told that a new SRO is to be appointed and there is no-one selected yet for the post. The key strategic document (Blue Print) has not yet been finalised and there is work to be done on implementation and governance arrangements so it is important that this appointment is made soon.

Children's Services Audit Area: School Budgets (5)

3.12. There are a number of recommendations which remain outstanding or are partially implemented and therefore a significant exposure remains in this area. We are aware that resource issues within education finance have impacted on action to implementation. The recruitment of an Education Finance challenge officer is a positive step toward the aim for improved challenge and monitoring over school budgets but this needs time to embed. Positive work to produce practice notes has been undertaken and these are sufficient but have yet to be issued to Governors. Resource needs to be allocated for this work.

Governance and Performance Audit Area: Scheme of Delegation (5)

3.13. There has been no progress on implementation of the remaining five recommendations. This is significant in relation to the management and control of the risks associated with asbestos.

Adult Services Audit Area: Adult Social Care Individual Budgets (8)

3.14. Whilst work is ongoing to improve the accuracy, transparency and reporting arrangements progress is not yet sufficient to address the risks and recommendations made. The production of guidance for staff, the development of risk-based management assurance arrangements and the clearance of backlogs all remain risks that have yet to be addressed. Management have estimated full implementation will be achieved early in 2010. The recommendations made were all rated as significant with an agreed deadline for implementation of July 2009. This was over-optimistic and resource pressures in Adult Services continue to present a challenge to effective implementation.

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

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

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

4. High (or Major and Critical) Risk Recommendations

- 4.1. Of the 75 outstanding recommendations, two were accepted as critical priority and four as major priority (under the new reporting format). Three recommendations were classed as high priority under the old format of reporting. Five of these nine relate to the penetration testing report in respect of ICT where good progress has been made and clear strategies are in place to ensure implementation.
- 4.2. Partial implementation has been demonstrated in addressing one other critical priority and three major priority recommendations.
- 4.3. This is the same position as reported in December 2009 but with the reporting of the results of further penetration testing in the next four weeks it is hoped that there will be additional evidence to demonstrate the successful implementation of server patching strategies and other control measures. Similarly, meetings with the Capital Programme Director and Children's Services SMT this week are being used to agree an approach to addressing recommendations in these areas.
- 4.4. The update on all high, critical and major risk recommendations is attached at appendix A.

5. Conclusion

- 5.1. There has been significant action taken to implement a large number of recommendations made in the audits carried out across the Council. Management responses and the level of evidence provided to confirm implementation continues to improve but is inconsistent. There is a need for Internal Audit to chase for updates in some areas and to ensure sufficient evidence is provided. Internal Audit continues to work with Heads of Service and Strategic Directors to ensure steps are being taken by management to manage the identified risks and implement recommendations.
- 5.2. Members are requested to consider and comment on the Internal Audit Recommendations Progress Monitoring report.

Update on High (including Critical and Major) Risk Internal Audit Recommendations - Status: Outstanding and Partially Implemented

Risk	Audit Group Area	Audit Title and Date Report Issued	Recommendation	Agreed Implementation Date	Audit Update
High	Corporate Services	Open Book Arrangements 14/04/2008	The Capital Programme Director and the Head of Valuation and Property should produce and disseminate clear and comprehensive procedures for the operation of Open Book Accounting. These procedures should include: 1. Defining roles, responsibilities, delegations, tolerances and allowable costs; 2. The level of inspection and management review required; 3. An OBA specific document retention policy and file format; and 4. Details of how these instructions are to be disseminated, updated, and included in future contracts.	31/03/2009	OUTSTANDING. Implementation delayed due to long term sickness in the responsible area. Revised target date set for end December 2009. Work has been ongoing in this area and arrangements are being used as part of contracts but the specific recommendation has yet to be addressed. Internal Audit is meeting with the Capital Programme Director on 9 March to agree a way forward on this and recommendations below.
High	Corporate Services	Open Book Arrangements 14/04/2008	The Capital Programme Director should produce a strategy and timetable for the introduction of OBA in the supply chain.	31/03/2009	OUTSTANDING. As above
High	Corporate Services	Open Book Arrangements 14/04/2008	The Capital Programme Director needs to ensure that there is an adequate level of accountancy knowledge available to support all the Open Book Accounting arrangements.	31/03/2009	OUTSTANDING. As above
High	Governance and Performance	Scheme of Delegation 09.05.08	The Capital Programme Director should ensure, in conjunction with the Corporate Services Asbestos Group, that there is an appropriate follow-up system in place to check that action plans are drawn up by responsible officers following issue of asbestos reports, recommendations are implemented and the asbestos database updated.	01/07/2008	OUTSTANDING. The recommendation is being implemented as part of a wider Asbestos Strategy Review. Delays in implementation originally encountered as responsibility for implementation passed through different managers but clear responsibility and actions being taken provide some assurance that this matter should be resolved. Expected implementation by 31 March 2010.
Critical X 2	ICT	Internal & External Penetration Test 10-Jul-09	This report included 20 recommendations for the patching of servers and updating of controls over the Council's ICT infrastructure. Of the recommendations not implemented in full there are three major and two critical recommendations.	30/10/2009	OUTSTANDING. Whilst a number of critical and major recommendations have been implemented and significant progress has been made, work is ongoing in this area. Internal Audit has conducted further penetration testing work and will be reporting findings in the next four weeks.

Update on High (including Critical and Major) Risk Internal Audit Recommendations - Status: Outstanding and Partially Implemented

Risk	Audit Group Area	Audit Title and Date Report Issued	Recommendation	Agreed Implementation Date	Audit Update
Major X 3	ICT	Internal & External Penetration Test 10-Jul-09	This report included 20 recommendations for the patching of servers and updating of controls over the Council's ICT infrastructure. Of the recommendations not implemented in full there are three major and two critical recommendations.	30/10/2009	OUTSTANDING. Whilst a number of critical and major recommendations have been implemented and significant progress has been made, work is ongoing in this area. Internal Audit has conducted further penetration testing work and will be reporting findings in the next four weeks.
Major	Children's Services	Children Missing from Education 31.07.09	The Assistant Director-Education Services should ensure that a CME reporting framework is developed. Reports should be produced and reviewed on a regular basis and we consider recipients should include: <ul style="list-style-type: none"> • The Executive Member For Children and Young People; • The Children and Young Peoples Scrutiny Committee; • Children Services Senior Management Team; • Education Services Management Team; and • Appropriate partner agencies. Consideration could also be given to including the Children's Board' Safeguarding Board, Children's Trust and the Children's Board (thematic partnership) in reporting arrangements.	30/10/2009	OUTSTANDING. Reporting formats in development to follow the format for other CS reports - will reported to ESSMT but yet to determine what data will be reported, baseline information etc. We understand from management that work has progressed in this area and are meeting with Children's Services SMT this week to discuss but until such time as we have received evidence of progress we are classifying this issue as outstanding.
Major	Neighbourhood Services	Business Continuity 03.03.09	The Head of Civil Contingencies should ensure that the Council's approach to the testing of BCPs is developed with the aim of delivering assurance over the operational effectiveness of BCPs. This approach should include: <ul style="list-style-type: none"> • Consideration of alternatives to the current level of testing and methodology as proposed in BS25999; and • Development and delivery of an enhanced testing strategy and programme. The testing programme should include review of the completeness and accuracy of data contained in BCPs and a formal feedback system that confirms amendments have been made and that lessons learned are incorporated into future planning.	30/04/2009	PARTIAL IMPLEMENTATION. Good progress has been made in this area. Testing has not been undertaken across all services, however detailed testing has been undertaken as part of other aspects of work. For example, swine flu preparations has included the introduction of BCP plans for critical services and detailed testing of these has been undertaken. The Council has also participated in external testing exercises such as COLDPLAY and winter weather disruption also ensured the robust testing of plans. Accept that this needs to be progressed as part of a regular programme of testing with critical and non-critical services but no longer considered a major risk as critical services have been tested.

Update on High (including Critical and Major) Risk Internal Audit Recommendations - Status: Outstanding and Partially Implemented

Risk	Audit Group Area	Audit Title and Date Report Issued	Recommendation	Agreed Implementation Date	Audit Update
Major	ICT	Departmental Information Security Review 25-Sep-07	The Information Strategy and ISMS development should be built into a corporate programme of information related projects so that the various reliances can be identified, addressed and progressed by senior management.	28/02/2008	PARTIAL IMPLEMENTATION. An ICT Roadmap has been developed and is being refined following strategic support and challenge sessions being held by Directorates and through engagement with the ICT Strategic Partner. The 31 January 2010 revised deadline was not met and sufficient evidence of progress more likely to be April 2010.
Critical	Children's Services	Children Missing from Education 31.07.09	The Head of Education Services should ensure that: <ul style="list-style-type: none"> • The CME strategy and plan includes an assessment of resource requirements; • Requirements are established and set out in agreed roles and formal job descriptions; • Resources required to deliver the strategy and plan are put in place; and • Processes are introduced to ensure referrals to partner agencies are followed-up. 	30/10/2009	PARTIAL IMPLEMENTATION. The integrated admissions service , which includes CME, includes a number of posts to deal with complicated admissions and CME. However, people were not due to be in post until December. Interim measure has been that Traded Services have been commissioned since July to support clearing of the CME database and address work backlog. Evidence seen of SLA with traded services and work completed. Some referrals to partner agencies completed but still a number outstanding. We understand from management that work has progressed in this area and are meeting with Children's Services SMT this week to discuss but until such time as we have received evidence of progress we are classifying this issue as partially implemented..
Major	Children's Services	Children Missing from Education 31.07.09	The Head of Education Service should ensure that arrangements are put in place to provide management assurance over the CME process. We consider this should involve: <ul style="list-style-type: none"> • Regular performance review meetings; • Periodic management review of a sample of CME cases; and • Regular reporting of new cases received, cases actioned, resolved and time since initial referral to allow monitoring against performance targets. 	30/10/2009	PARTIAL IMPLEMENTATION. CME draft business processes completed, which includes management assurance functions such as review of cases etc. We understand from management that work has progressed in this area and are meeting with Children's Services SMT this week to discuss but until such time as we have received evidence of progress we are classifying this issue as partially implemented.