
**Manchester City Council
Report for Information**

Report to: Audit Committee - 3 December 2009

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

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Background documents

Internal Audit Plan 2009/10

Wards affected

None

Implications for key council policies

N/A

<u>Anti-poverty</u>	<u>Equal Opportunities</u>	<u>Environment</u>	<u>Employment</u>
None	None	None	None

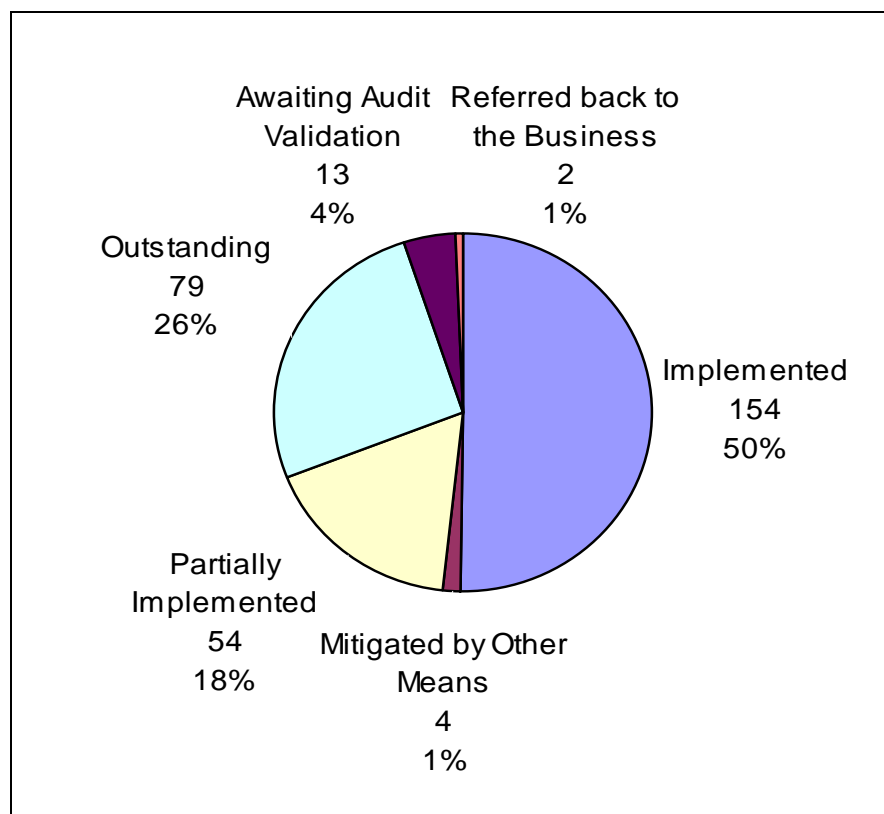
1. Introduction and Background

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 15 November 2009.

2. Status Update

2.1. A total of 306 agreed Internal Audit recommendations were due to have been implemented by 15 November 2009. The current status is as shown in Diagram 1 below.

Diagram 1 – Implementation Status of Internal Audit Recommendations



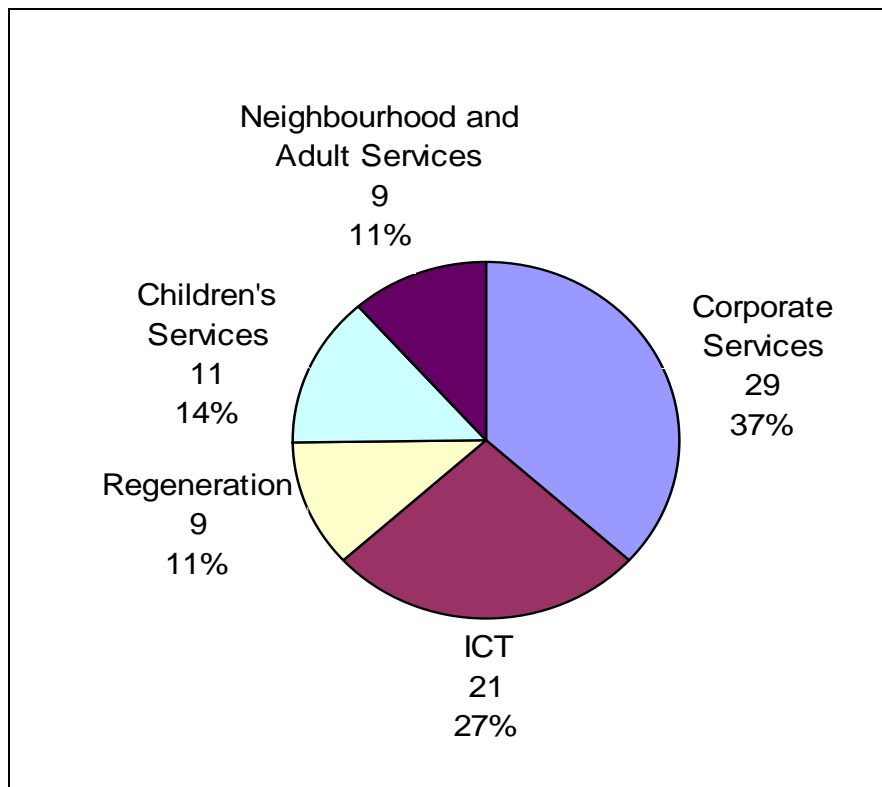
2.2. Internal Audit can confirm that 154 of these have been implemented. The risks referred to in four further recommendations have been mitigated through the establishment of other appropriate controls. Management have also reported thirteen as having been completed but at the time of this report these are subject to Internal Audit validation. Together, these three categories of implemented recommendations account for 55% of the total due.

2.3. There is clear progress and partial implementation for 54 (18%) of the recommendations. In some cases this is because recommendations include

multiple actions, such as the production and dissemination of guidance. In such circumstances, recommendations are considered to be partially complete when aspects of the recommendation, such as the development of draft guidance notes, have been completed by the due date. Nonetheless, Internal Audit acknowledges that managers are taking steps to manage risks albeit progress in ensuring full implementation of actions has been slower than had been agreed.

- 2.4. In line with Internal Audit's policy for recommendations which have not been implanted within 12 months of the agreed due date, we have referred two risks to the Interim Director of Adult Services. The Residents' Payments Internal Audit report issued on 14 January 2008 contained five recommendations that were agreed with the former Director of Adult Social Care for implementation by 31 January 2008. Five of the seven recommendations have been implemented but two are outstanding. These related to the review of aged debt reports and the establishment of controls to follow-up outstanding payments. Management have advised that Adult Social Care restructuring and the development of the Abacus system need to be completed before these recommendations can be fully implemented and the associated risks addressed. As a result implementation is unlikely before the 31 March 2010. Whilst Internal Audit have referred these back to management to formally acknowledge their acceptance of the risk these matters will be considered further as part of audit planning for 2010/11.
- 2.5. At 15 November there were 79 outstanding recommendations. This compares favourably to the 127 outstanding at 15 September. These relate to all directorates as shown in Diagram 2 below.

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 (10)

- 3.2. Of 15 recommendations in this report, one has been implemented, four partially implemented and the remaining ten are outstanding. 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 has delayed implementation of these controls.

Corporate Services Audit Area: Open Book Accounting (5)

- 3.3. Whilst a number of open book accounting reviews have been successfully undertaken in Corporate Property and Capital Programme Group, sickness absence is the key factor attributed to delays in the development of procedures, guidelines and training in this area. One of the outstanding recommendations in this area is classed as high risk. Revised implementation timescales of 30 September were not met and these continued delays present an ongoing risk.

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.

ICT Audit Area: Departmental Information Security (4)

- 3.5. This report was issued in September 2007. 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)

- 3.6. 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.

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

- 3.7. There is a remaining exposure to risk as a number of key recommendations are still to be addressed, including 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 (5)

- 3.8. 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.

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

- 3.9. There has been significant work undertaken already to reduce the exposure to risk with three recommendations fully implemented and the a number of the remaining seven being close to full implementation. Progress has been hampered by delays to the establishment of the integrated admissions service but management have clearly tried to continue to progress 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.

Adult Services: Adult Social Care Individual Budgets (8)

- 3.10. 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.
- 3.11. 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 88 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 represents significant progress and a reduction from the 15 high and major priority recommendations that were reported as outstanding in September. These issues relate to a number of different reports so the risk is not concentrated in one particular area or one directorate. Internal Audit will continue to work with management to ensure that appropriate actions are being taken to ensure risks are being managed or are referred back to Strategic Directors for formal acceptance.

4.4. A detailed update on all high, critical and major risk recommendations is attached at appendix A and appendix B.

5. **Conclusion**

5.1. Overall, a high number of outstanding recommendations remain although progress, particularly in addressing high risk recommendations, has improved since the previous report. Issues continue to be escalated to the Head of Internal Audit and Risk Management to ensure steps are being taken by management to address all of the recommendations made.

5.2. Members are requested to consider and comment on the Internal Audit Recommendations Progress Monitoring report.

**Appendix A – Update on High (including Critical and Major) Risk Internal Audit Recommendations
Status: Outstanding, Partially Implemented and Referred**

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.
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 19 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

Risk	Audit Group Area	Audit Title and Date Report Issued	Recommendation	Agreed Implementation Date	Audit Update
		10-Jul-09	recommendations.		further penetration testing work and will be reporting findings in the next four weeks.
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 meeting arranged for end November. Envisaged should be implemented by 31 December 2010.
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. <p>This approach should include:</p> <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. <p>The testing programme should include review of the</p>	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 COLDPLOY. Accept that this needs to be processed within other non-critical services but no longer considered a major risk as critical services

Risk	Audit Group Area	Audit Title and Date Report Issued	Recommendation	Agreed Implementation Date	Audit Update
			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.		have been tested.
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. Once this process has been completed the recommendation will be addressed. Likely completion by 31 January 2010.
Critical	Children's Services	Children Missing from Education 31.07.09	<p>The Head of Education Services should ensure that:</p> <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 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.
Major	Children's Services	Children Missing from Education 31.07.09	<p>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:</p> <ul style="list-style-type: none"> • Regular performance review meetings; • Periodic management review of a sample of CME cases; and 	30/10/2009	PARTIAL IMPLEMENTATION. CME draft business processes completed, which includes management assurance functions such as review of cases etc. Data for reports to be agreed so management consider will be fully implemented by 31 January 2009.

Risk	Audit Group Area	Audit Title and Date Report Issued	Recommendation	Agreed Implementation Date	Audit Update
			<ul style="list-style-type: none"> Regular reporting of new cases received, cases actioned, resolved and time since initial referral to allow monitoring against performance targets. 		
High	Corporate Services	Open Book Arrangements 14/04/2008	<p>The City Treasurer and City Solicitor need to ensure that:-</p> <ol style="list-style-type: none"> Final settlement of the existing contractual arrangement is agreed. The Terms and Conditions of any new contractual arrangements are unambiguous and minimise the opportunity of adverse interpretation 	31/12/2008	RISK REFERRED TO STRATEGIC DIRECTOR. The recommendation relates to contract negotiations with Manchester City FC in respect of the City of Manchester stadium. Change in ownership of the club has meant that this recommendation is now part of wider discussions with the owners. Proposed that this be referred back to the Strategic Director (City Treasurer)
High	Adult Services	Residents Payments 14.01.08	The Acting Debt Recovery Team Leader should ensure that aged debtor reports are generated and reviewed on a four weekly basis and analysis reported to the Head of Financial Services ASC.	31/01/2008	RISK REFERRED TO STRATEGIC DIRECTOR. Advised that two ongoing initiatives (Adult Social Care restructuring and the development of the Abacus system) that need to be completed before these recommendations can be fully implemented and all of the associated risks addressed. Given timescales involved this has been referred back to the Interim Director of Adult Services.
High	Adult Services	Residents Payments 14.01.08	The Head of Financial Services ASC should ensure that all arrears are followed up in accordance with revised procedure guidelines following a review of debt caseloads (Recommendation 1).	31/01/2008	RISK REFERRED TO STRATEGIC DIRECTOR. As above

**Appendix B – Update on High (including Critical and Major) Risk Internal Audit Recommendations
Status: Implemented**

Risk	Audit Group Area	Audit Title and Date Report Issued	Recommendation	Agreed Implementation Date	Audit Update
High	Governance and Performance	Performance Indicators 29.08.08	The Head of Corporate Performance should develop an achievable action plan to implement the three outstanding recommendations raised in our previous audit in this area (reference deptserv018/2007). Responsibility for completing actions and realistic timescales for completion should be identified.	01/04/2009	IMPLEMENTED The Corporate Performance team has developed a data quality action plan and review process that should help the risks identified by Internal Audit.
High	Governance and Performance	Performance Indicators 29.08.08	The Head of the Housing Information Unit should develop existing verification procedures to ensure that staff with responsibility for calculating performance have implemented local working practices to make themselves aware of any changes to indicator definitions and monitoring and reporting requirements. This action could include revising existing verification forms to include a date on which the definition was last checked, or a requirement to include a copy of the definition on the corporate performance management system alongside other working papers.	01/03/2009	IMPLEMENTED as part of the data quality action plan and review process set out above.
Major	Children's Services	The Manchester Federation of Special Schools 05.06.09	The Chair of the Interim Executive Board should ensure that the SOFD defines arrangements to ensure effective and regular budget monitoring. This should include: <ul style="list-style-type: none"> • The regularity with which the Federation Business Manager and Finance Officers should meet. We would consider monthly to be appropriate; • Ensuring budget monitoring meetings consist of a review of progress against budget, challenge of variances, changes or virements to be prepared for approval and budget concerns for individual schools; • Reporting requirements to the Principal of the Federation and the Interim Executive Board including content, format and frequency of reports to be prepared by each school; • The need for a record of meetings to be maintained and signed by all parties. 	31/07/2009	IMPLEMENTED. The revised scheme clearly includes all the areas referred to in the recommendation.

Risk	Audit Group Area	Audit Title and Date Report Issued	Recommendation	Agreed Implementation Date	Audit Update
Major	Children's Services	The Manchester Federation of Special Schools 05.06.09	<p>The Chair of the Interim Executive Board should ensure that job descriptions for the following posts are drawn up and implemented:</p> <ul style="list-style-type: none"> • Principal of the Federation. • Heads of Site. • Federation Business Manager. • Finance Officers. 	31.07.09	AWAITING AUDIT VALIDATION. Management confirm that job descriptions have been completed and Internal Audit are awaiting copies prior to confirmation of full implementation.
Major	Children's Services	The Manchester Federation of Special Schools 05.06.09	<p>The Chair of the Interim Executive Board should identify and formalise responsibility for line management of Finance Officers at the three schools. This role could be undertaken by the Federation Business Manager and responsibilities should include:</p> <ul style="list-style-type: none"> • Oversight of key activities; and • Performance monitoring and appraisal. 	31.07.09	AWAITING AUDIT VALIDATION. Management evidence of review meetings provided but Internal Audit awaiting copies of job descriptions for the finance officers prior to confirmation of full implementation.
High	Children's Services	City Learning Centres 24.12.08	<p>The Head of Education Services should ensure that the EIC exit strategy is complied with and appropriate Senior Management are allocated responsibility. Specifically this should be:</p> <ul style="list-style-type: none"> - each CLC is assigned a SSEO to be the Local Authority's representation on the Management Board, and - the Head of Education Services is responsible for the monitoring, evaluating and challenging the performance of CLCs. 	31/01/2009	IMPLEMENTED. Senior School Effectiveness Officers have now been assigned to each CLC and attend Board Meetings - The Education Improvement Partner co-ordinates and meets on a monthly basis with all CLC Managers and performance is evaluated and discussed.

Risk	Audit Group Area	Audit Title and Date Report Issued	Recommendation	Agreed Implementation Date	Audit Update
High	Children's Services	Sure Start 23.06.08	<p>The Head of Sure Start should further develop the systems for monitoring performance of the delivery of the Sure Start Programme by:</p> <ul style="list-style-type: none"> • seeking to obtain national base data in order for targets to be set for the national indicators as soon as possible; • establishing a suite of both qualitative and quantitative performance indicators to supplement the national indicators and set key targets; • informing all centres of the data to be collated to report on such targets along with the frequency of reporting, monitoring and review arrangements and retention of records in support of reported figures. This will allow effective benchmarking to be undertaken; • making a decision in relation to the reporting of centre level activity. The format of which could be along the same lines as the report completed by one of the Heads of Centre. 	30/09/2008	IMPLEMENTED. A performance management framework has been developed for Sure Start children's centres that includes guidance on performance management, development of centre plans, self evaluation forms, clear reporting against national and local targets for all centres and individual event monitoring. There is also evidence of this being communicated to centres.
Major	Adult Services	Safeguarding Adults 20.04.09	<p>The Head of Safeguarding should ensure a documented procedure is introduced which addresses the CSCI requirement to pro-actively gather all documentation relating to individual incidents. This links to the standardisation of recording systems and processes set out in recommendations 10 and 11 above.</p> <p>The procedure document should be disseminated to staff in an effective manner to raise awareness and help ensure compliance.</p>	31/08/2009	IMPLEMENTED. Procedures developed and disseminated through senior managers safeguarding leads group to raise awareness and ensure compliance. Evidence of dissemination to staff and e-mails have also been sent re-enforcing the requirement to fully complete all the forms in the process.