

REPORT FOR INFORMATION / RESOLUTION

COMMITTEE Audit Committee

DATE: 27 June 2008

SUBJECT: Internal Audit - Implementation Progress Report

REPORT OF: The City Treasurer

PURPOSE OF REPORT

To provide a progress report on the implementation of recommendations from Internal Audit reports issued from July 2006 to date.

RECOMMENDATIONS

Members to note progress to implementation of audit recommendations and matters arising.

FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS:

None.

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BACKGROUND DOCUMENTS

N/A

WARDS AFFECTED

N/A

IMPLICATIONS FOR KEY COUNCIL POLICIES

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

Internal Audit Implementation Progress Report

1. Introduction

- 1.1 This report provides a summary of the progress to implementation of audit recommendations arising from the 2006/07 and 2007/08 audit programmes. It outlines the current status of recommendations based on evaluation of evidence available to Internal Audit and provides suggestions for management and review of recommendations moving forward.
- 1.2 Audit Committee has requested regular updates from Internal Audit on implementation activity to ensure that agreed actions are being taken by management and that exposure to risk is being addressed. The progress report should bring to the Committee's attention any areas of material concern.

2. Background

- 2.1 Internal Audit monitor recommendations for implementation to ensure that appropriate management action has been taken to minimise exposure to risk. This system was introduced for all recommendations in 2007 and work has been done by Internal Audit to review progress to implementation of recommendations from 2006/07 and 2007/08. This is done by asking management, who are identified as owners of recommendations, for details of implementation action and evidence to support it and/or carry out follow up visits to assess progress. Where appropriate this has led to closure of individual audit recommendations and of audit reports during the year.
- 2.2 Appendix 1 provides a summary of the implementation rates for both years showing implementation by department. This shows an increased level of implementation for 2006/07 with a total of 43% percent of recommendations implemented which is an increase on the last reported position and for 2007/8 35% are considered implemented but many of these recommendations have not yet reached implementation dates so this figure is expected to increase in due course.
- 2.3 Internal Audit report the number of recommendations which have passed the implementation target date to management and escalate to senior management as required to request that further action is taken. This report requests that any barriers to implementation are identified and addressed where possible. If there is a need to revise implementation dates or to change the action plan to address the risk in another way then Internal Audit will, if appropriate, review and agree alternative plans and implementation dates with management. These would be classed as modified. Some recommendations may be deemed to be overtaken by events in some circumstances and would be closed noting the reasons for this.

- 2.4 This report focuses on high risk recommendations where exposure to risk is considered to be greatest and offers a summary of the progress made to date. Based on the information provided to Internal Audit 52% of high risk recommendations made in 2006/7 and 56% of those from 2007/08 remain outstanding. The reported reasons for this are outlined below.

3. Progress to Implementation

Children's Services

- 3.1 There are a significant number of recommendations related to schools audits where implementation has been delayed and the reasons are being explored. The audit certification for Financial Management in Schools enabled Internal Audit to carry out reviews in a number of schools as part of the process and identify evidence of implementation in many of those cases. Internal Audit still await information from a number of other schools which may demonstrate implementation and it is considered that the gap may be in the information rather than failure to take implementation action. There is more work to do to ensure that schools set realistic implementation timetables and evidence completion of recommended actions in good time.
- 3.2 The recommendations outstanding relate to a range of governance and financial management issues including: segregation of duties particularly in income and procurement processes; lack of evidence of governing bodies playing a challenge role, their involvement in decision making or approval of key documents; a lack of evidence of compliance with best practice in procurement; and limited accuracy of budget monitoring reports. These issues have been reported in the Internal Audit progress and assurance report and are matters known to Council management which is working to address them.

Neighbourhood Services and Performance

- 3.3 There has been an increased number of recommendations implemented since the last report in January 2008 however a third of risk recommendations remain un-implemented past the due dates. Internal Audit is aware that management is actively engaged in action to implement the outstanding recommendations and has been told that the challenges include competing priorities and in one case Internal Audit has been told that a lack of funding may prevent implementation.
- 3.4 There are some recommendations in relation to data quality and performance management which are outstanding. Work is on going in these areas linked to the issue of the framework and strategy for data quality and in relation to guidance required for performance management. Management is actively working on the service improvement developments in these areas and implementation is expected as part of that process. Internal Audit will continue to monitor implementation in this area.

Corporate Services

- 3.5 Management are actively pursuing implementation of recommendations related to corporate service systems. Internal Audit support the approach of both Corporate Technology and Revenue and Benefits which have centralised monitoring systems to manage implementation. Delays to implementation in some area relate to the need for technical solutions to specific risks which require agreement to practical solutions and system change requests to be processed. Examples of this include the agreed need for upgrades to the purchase card system which requires integration to the existing SAP purchasing system and the need for software changes to enable better reporting in the payroll system. These are being prioritised. It is disappointing that IT access risks are not yet resolved but Internal Audit is satisfied that these issues are known to management and action plans are in place. Budget monitoring risk is well documented and management have a programme of service improvement underway which will address these recommendations. This will take time to roll out but is aimed at increasing consistency across services and increasing manager skills in carrying out required roles. Strategic Financial Management Group are overseeing implementation and Internal Audit is satisfied with progress in this area.

Regeneration and Procurement

- 3.6 Pro-active work is on-going in relation to mitigation of ERDF and project management risks. Internal Audit is satisfied with this work which has previously been reported to Audit Committee for review. There is further work to do to ensure that best practice is embedded and that there is compliance with protocols and defined practices. Implementation on competition rules was carried out and the audit has been closed.

Conclusions

- 3.7 From the information available to Internal Audit common barriers to completion of recommendations cited for delayed implementation are the high number of strategic reviews, a number of plans for change and development which are on-going and the need to ensure that solutions are developed in context. Other issues are that there is a recognition that unrealistic timeframes have been set on some original action plans, there are limitations in the capacity for some teams to complete implementation in the timescales available and the need to effectively budget for solutions. Internal Audit are satisfied that management are working to address risk through the implementation of recommendations but the need to consider priorities and timescales for this work is having some limiting impact on achieving some service improvement plans.
- 3.8 Internal Audit expect that risks exposed during audits will be considered as part of managements overall analysis of the business areas involved rather than treated as stand alone issues. The development of the Council's risk management and business planning system enables managers to reflect on

the risks identified during audits as part of the process and to develop effective resource planning to take action. This includes raising matters with the Senior Management Team as required.

- 3.9 It is proposed that Internal Audit's monitoring of recommendations be confined to a specific time period after the audit report is published and that a system of "referred risk" be formally introduced. This would involve the review and re-assessment of any recommendations which remain un-implemented after a defined period and the formal referral of the risk back to management in a business area to build into the risk analysis process. While this does not ensure implementation it would be an opportunity for management to re-evaluate the audit findings and risks and to put proposed actions into context within the business plan. The annual governance statement process, now in place, will allow managers to report on the action to address risks identified by Internal Audit and other review bodies as part of the formal assurance statements required and will be complementary assurance to that provided by Internal Audit.
- 3.10 To facilitate this process Internal Audit will need to agree referral of risk back to the business at an appropriate point. Notification would be made to the relevant Strategic Director as part of this process. Internal Audit would also re-examine referred risks as part of the Internal Audit planning process and would consider the potential for further audit work as necessary.
- 3.11 Members are invited to note progress reported and to comment on the proposal for future management of implementation of internal audit recommendations.

Appendix 1

RECOMMENDATION MONITORING June 2006 TO JUNE 2008

2006-07

Business Area	Recommendations Made				Recommendations Implemented (% of total)				Recommendations Outstanding Past Due Date (% of total)			
	H	M	L	Total	H	M	L	Total	H	M	L	Total
Children's Services	33	321	63	417	21	120	19	160 (38%)	8	188	43	239 (57%)
Neighbourhood Services	24	49	7	80	17	24	4	45 (56%)	7	22	3	32 (40%)
Performance	9	17	6	32	2	2	0	4 (13%)	7	15	6	28 (88%)
Governance	6	2	6	14	0	0	0	0	4	0	4	8 (57%)
Corporate Services	62	41	11	114	38	27	9	74 (65%)	24	14	2	40 (35%)
Regeneration	8	0	1	9	5	0	1	6 (66%)	3	0	0	3 (34%)

Note:

1. Performance - figures previously reported included eight outstanding governance recommendations which were also reported separately.
2. Neighbourhood Services – figures previously reported included five recommendations related to the National Parking Adjudication Service. These will not be included in future reports.

2007-08

Business Area	Recommendations Made				Recommendations Implemented				Recommendations Outstanding Past Due Date			
	H	M	L	Total	H	M	L	Total	H	M	L	Total
Children's Services	34	207	99	340	22	73	26	121 (36%)	11	122	71	204 (60%)
Neighbourhood Services	7	13	0	20	0	0	0	0	5	8	0	13 (65%)
Performance	0	0	0	0	0	0	0	0	0	0	0	0
Governance	4	0	4	8	0	0	0	0	0	1	1	2 (18%)
Corporate Services	30	34	11	75	6	5	2	13 (17%)	21	26	9	56 (74%)
Regeneration	28	18	6	52	12	8	5	25 (48%)	5	0	0	5 (10%)