

**MANCHESTER CITY COUNCIL**

**REPORT FOR INFORMATION / RESOLUTION**

**REPORT TO:** Audit Committee  
**DATE:** 15 January 2009  
**SUBJECT:** Internal Audit Assurance Update  
**REPORT OF:** The City Treasurer

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**PURPOSE OF REPORT**

To provide the quarterly operational and assurance update from the Council's Internal Audit Service and an update on progress made in the implementation of audit recommendations.

**RECOMMENDATIONS**

Members are requested to note the report.

**FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS:**

None

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**BACKGROUND DOCUMENTS**

Internal Audit assignment reports

**WARDS AFFECTED** N/A

**IMPLICATIONS FOR KEY COUNCIL POLICIES**

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

## **Internal Audit Quarterly Assurance Update Report 1 October 2008 – 31 December 2008**

### **1. Introduction and Background**

1.1. This report provides an update of internal audit activity at Manchester City Council for the period 1 October 2008 to 31 December 2008. The content is as follows:

- Section two is an update of key issues in respect the operational delivery of the service.
- Sections three to nine comprise a summary of assurance opinions issued in assignment reports in the period.
- Section ten is the Implementation Condition Report summarising progress made by across the Council in the implementation of internal audit recommendations.

1.2. Members of the Audit Committee are asked to note the report.

### **2. Operational Activity Update**

2.1. The period from October to December 2008 has been characterised by a focus on audit delivery and operational matters. This has had an impact on the ability to maintain momentum in respect of the strategic development of the service and this requires refocus from the Interim Head of Internal Audit in the last three months of the year.

2.2. The key operational matters affecting the service in the period are set out below.

#### **Theft of Laptops**

2.3. In December 2008 Members of the Audit Committee were provided with a verbal update regarding the theft of Laptops and payroll data from the locked Internal Audit office on 30 October 2008. This was a regrettable incident for all concerned but the Council has provided a comprehensive response to help allay the fears of staff affected by this incident. Letters were issued to over 1,700 staff, head teachers, trades unions and the Information Commissioner, with all staff being provided with access to a credit check service and a dedicated support helpline. Internal Audit staff have responded to approximately 220 telephone calls and the Interim Head of Internal Audit has responded to a number of written complaints. This response was necessary and whilst the requests for information and support appear to have subsided but it did have a significant impact on the resources of the team in the period.

## Resourcing

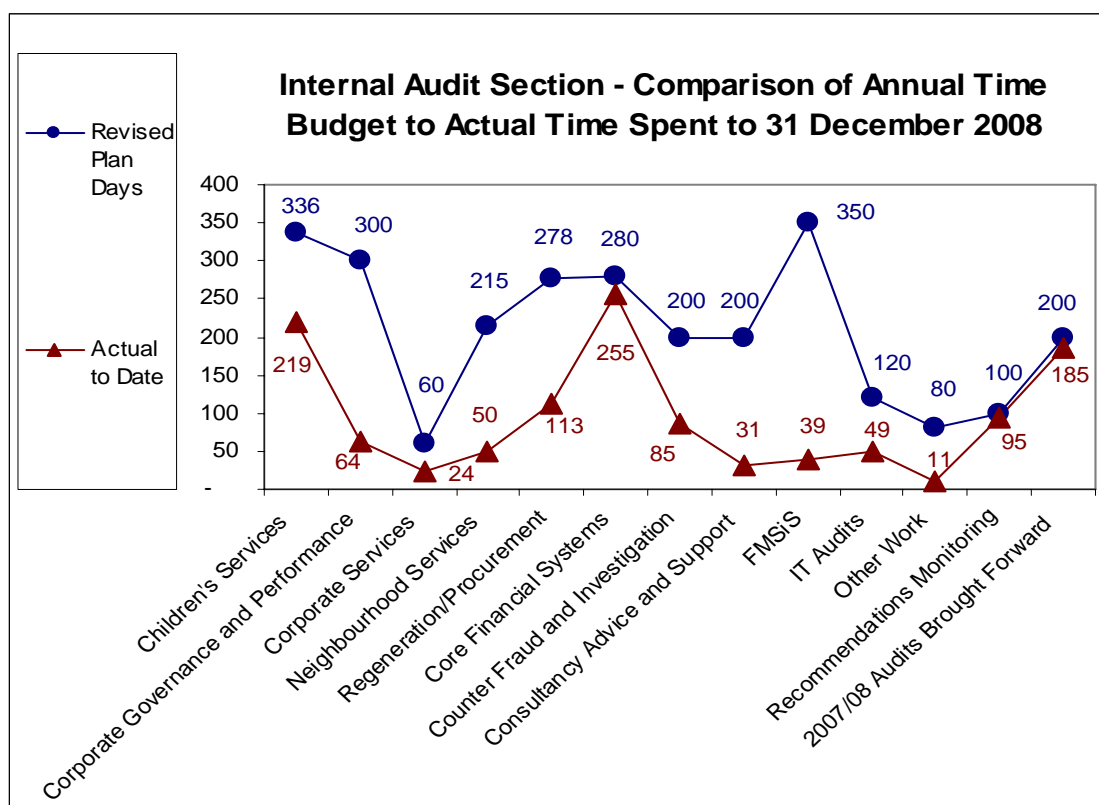
- 2.4. Staff absences at senior levels of the team within the period have impacted on the ability of the Interim Head of Internal Audit to deliver some of the strategic development points as set out in the project plan. Sickness is reported further below.
- 2.5. At the end of December one member of staff moved on secondment to Adult Social Care, for an initial period of six months. Another team member tendered their resignation in December and this means that 120 days of planned, available time will be lost in the period to 31 March 2008. Actions to address this are also set out below.

## Team roles and responsibilities

- 2.6. A key change in the team has been the appointment of an Acting Lead Auditor for fraud and investigations for a proposed period of three months from 1 December 2008. This individual is charged with leading Internal Audit's work in respect of proactive fraud investigation, raising awareness of fraud risks across the Council and the coordination of reactive investigation work. In the last month the reactive work has taken precedence but the focus will shift to development of a more proactive approach in the final quarter.

## Analysis of time in the period

- 2.7. The comparison of budgeted to actual time charged to audit assignments in the period is set out below:



The above excludes 135 days of client work from the audit management team

2.8 45% of the planned time to be spent on audits has been spent in the six months to 31 December 2008. Delivery of the annual plan remains at risk but specific actions being taken to address this include:

- The purchase of 200 days of external support through the financial framework contract to assist in delivery of the FMSiS assessments at schools;
- The use of 80 days of planned external support from Salford Computer Audit Services (Salford City Council) for the delivery of IT audit reviews;
- The possible secondment of staff from other Council directorates to support delivery of the plan; and
  - Use of the financial framework contract for the delivery of a small number of other reviews.

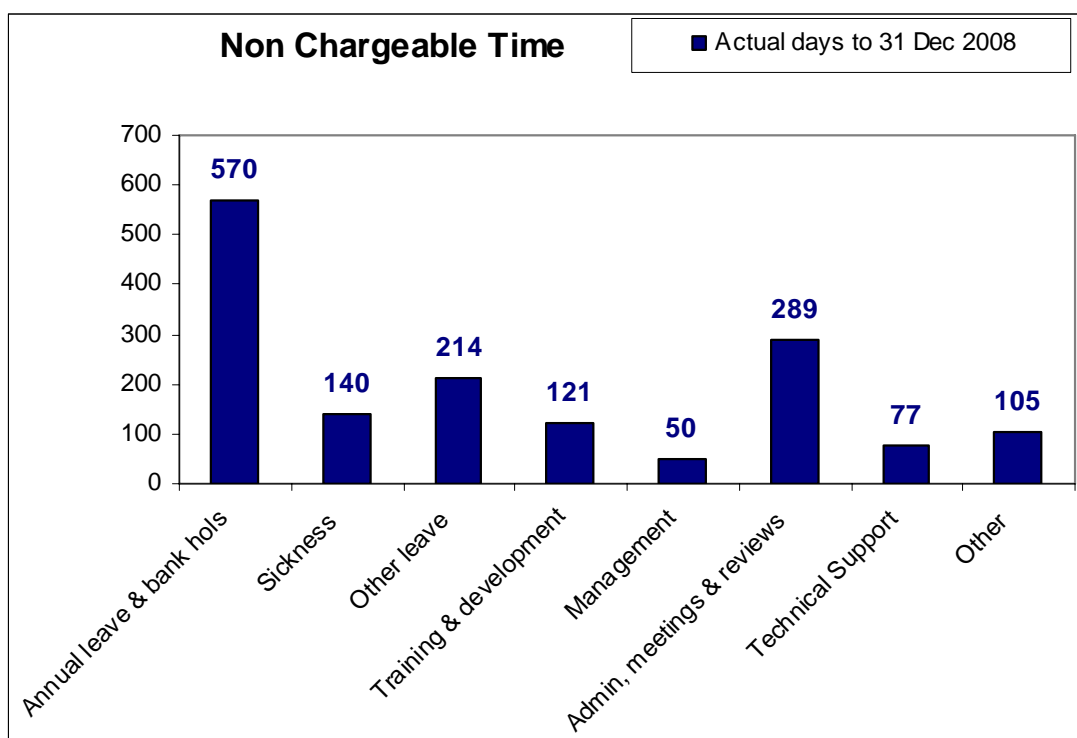
2.9 Some of the key areas of note at this stage are as follows:

- 200 of the days in Children's Services have been charged to primary school audits and this significant programme of audit work is largely complete. The remaining time to be incurred in the period to 31 March 2009 relates to secondary school audits, management of the FMSiS assessments and the conclusion of risk based audits across the Children's Services directorate that were all planned for completion in the final quarter of the year.
- 300 days were planned within the corporate governance and performance areas. Whilst the graph shows that 64 days have been spent to the end of December a further 40 days has also been delivered by members of the audit management team. Whilst assurance opinions will be delivered on all of the planned reviews they will not necessarily require all of the time allocated in the original plan so this is not considered to be a significant risk.
- Delivery of the Neighbourhoods and Regeneration elements of the plan require significant focus in the three months to 31 March 2009 and additional support will be required to ensure the delivery of all of the planned reviews by the end of the year.
- Less time than planned has been spent on counter fraud and investigation work. The same applies to advice and support. Time spent in these areas has been largely reactive and reflects current levels of demand from the business but the focus on audit delivery has minimised the ability of the team to spend valuable time in developing a proactive approach in these areas and it is important that appropriate allocations are reflected in the audit plan for 2009/10.

2.10 The total time spent on direct audit activity (including client and work management) in the year to 31 December 2008 was 46%. This is the same proportion as was reported to the end of September 2008. The key elements of the indirect time were as follows:

- 50% of indirect time was due to planned annual leave, bank holidays and maternity leave and reflects the fact that the majority of annual leave is taken in the six months from July to December. Significant time continues to be charged to administrative codes and meetings but the budgets for

such time have now been set at an individual level to help ensure that such indirect time is minimised in the remaining three months of the year.



- Between October and December there were 94 days of sickness absence including key absences at senior management level. This has resulted in the Interim Head of Internal Audit spending longer than hoped on operational management matters and less time on the development of the service.
- The 105 days under 'other' includes 40 days of non-recurring time spent by the team in November in response to the theft of internal audit laptops and school payroll data.

2.11 In summary the quarter to 31 December 2008 presented a number of challenges brought about through a combination of sickness absence, the theft of laptops and the ongoing resource pressures within the service. Delivery of the current audit plan, development of the 2009/10 plan, completion of the Interim Head of Audit's project plan and progression of actions to address the current resource shortfall will be the primary focus for the service for the remainder of the year.

2.12 The quarterly assurance statement arising from this internal audit work in the period from September to December 2008 is set out in section three below.





### 3. Assurance Update

3.1. This is the second Internal Audit assurance update for Manchester City Council for 2008/09. As noted in the October assurance report this is one of three updates that will be provided in the year, culminating in the annual Internal Audit report to be presented to Audit Committee in June 2009.

3.2. Audit activity that has resulted in the issue of assurance opinions in the period and the key issues emerging from this work are set out below.




#### 4. Corporate Services

- 4.1. The focus of Internal Audit's work in relation to Corporate Services has remained on the delivery of audits of the core financial systems. Two further reports have been finalised in respect of national non domestic rates and payroll with drafts produced for a further five.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
National Non Domestic Rates (System Audit)	Final	Substantial 		H
Payroll (System Audit)	Final	Substantial 		H
Council Tax (System Audit)	Draft	N/A	N/A	H
Cash Receipting	Draft	N/A	N/A	M
Asset Management	Draft	N/A	N/A	H
ICT: E-Mail Policy	Draft	N/A	N/A	M
Housing Benefit (System Audit)	Draft	N/A	N/A	H
Income Systems	Fieldwork	N/A	N/A	M
Revenue Budget Monitoring	Fieldwork	N/A	N/A	M
Capital Budget Monitoring	Fieldwork	N/A	N/A	M
ICT : External Penetration Testing	Fieldwork	N/A	N/A	M

#### 5. Regeneration

- 5.1. The Housing Market Renewal report has been finalised in the period and management comments are awaited for the review of the Manchester Method project management methodology. There have been delays in starting work on the Manchester Adult Education Service and on the ERDF Assurance Framework with audit time having been moved to the final three months of the year on each of these at the request of management.





Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
Housing Market Renewal	Final	Substantial 		M
Manchester Project Methodology	Draft	Limited 	N/A	H
Heritage Security	Fieldwork	N/A	N/A	H
Manchester Adult Education Service	Fieldwork	N/A	N/A	H
ERDF Assurance Framework	Fieldwork	N/A	N/A	H

#### 6. Children's Services

6.1. Internal Audit reports in respect of Children's Services relate both to the Council's internal functions and activities but also to schools. It is important to note that for schools the assurance opinions and assessment of risks are within the context of the school and whilst areas for development may be important at a school level they do not necessarily reflect significant risks to the Council as a whole.































### Council activities













- 6.2. Work has been finalised on three reports and the education redesign project review has been started. The assurance opinion for school budgets remains as reported to the Audit Committee in October 2008 and Internal Audit will continue to liaise with Children's Services in supporting the development of a broader assurance and governance framework for schools.
- 6.3. The work on the Annual Pupil Census and City Learning Centres was issued in the previous reporting format but the assurance opinions for these are considered to be moderate and limited respectively.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
School Budgets	Final	Moderate 		H
Annual Pupil Census	Final	Moderate 	N/A	H
City Learning Centres	Final	Limited 	N/A	M
District Model – Delegations	Fieldwork	N/A	N/A	H
Education Service Redesign	Fieldwork	N/A	N/A	M

### Schools




- 6.4. Five primary school audit reports were reported to Audit Committee in October 2008 and a further 21 final reports have since been agreed. The remaining reports are in draft and will be reported in the final assurance report for the year.
- 6.5. The majority of schools were issued with moderate audit opinions with three substantial and one limited opinion. Key themes emerging from primary school audits continue to include a lack of evidence of Governing Body approval of key documents and challenge in respect of budget monitoring. The schools have found it difficult to achieve segregation of duties within their purchasing processes so we have made a number of recommendations to help ensure the establishment of appropriate controls. A number of these recommendations will be followed-up as part of the FMSiS assessments scheduled to take place by the end of March 2009.

Primary School	Assurance Opinion	Capacity to Improve
Crosslee	Moderate 	
St Cuthbert's	Substantial 	
Crab Lane	Moderate 	
St Wilfird's, Northenden	Moderate 	
Plymouth Grove	Moderate 	
All Saints	Moderate 	
St Mary's RC Levenshulme	Moderate 	
The Birches	Moderate 	
Heald Place	Moderate 	
St Joseph's	Moderate 	
St Clement's	Moderate 	
Old Hall	Substantial 	
Green End	Moderate 	
Ladybarn	Substantial 	
St Ambrose	Moderate 	

Primary School	Assurance Opinion	Capacity to Improve
Ashgate	Moderate 	
Rolls Crescent	Limited 	
Charlestown	Moderate 	
Moston Lane	Moderate 	
Broad oak	Moderate 	
St Chrysostom's	Moderate 	

### Neighbourhood Services

- 6.6. A key area of focus in Neighbourhood Services has been the arrangements for the implementation of Individual Budgets within Adult Social Care. In October 2008 Internal Audit reported on Individual Budgets with a moderate audit opinion and medium capacity to improve. A further review was undertaken in the period looking specifically at audit arrangements surrounding the audit arrangements in respect of Individual Budgets and this again has resulted in a moderate opinion. The report on Older People Care Provider Monitoring was issued under the previous format but the audit opinion in this area is considered to be substantial.
- 6.7. As noted in the operational update the Acting Lead Auditor for Neighbourhoods has commenced a six month secondment to Adult Social Care and whilst this poses resource issues for the Audit service it is hoped this will assist the service and the Council as a whole in developing arrangements in these areas.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
Older People Care Provider Monitoring	Draft	Substantial 	N/A	M
Individual Budgets (Update – Audit Arrangements)	Draft	Moderate 		H
Adult Protection (Adult Social Care)	Fieldwork	N/A	N/A	H
Business Continuity Planning	Fieldwork	N/A	N/A	M




## 7. Performance

- 7.1. Fieldwork is well advanced for two key audits in respect of the Comprehensive Area Assessment and National Indicator Set. The service has been heavily involved in the development of the new business planning and self assessment process and on the basis of this involvement will be issuing an assurance opinion in respect of business planning in the final quarter.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
Comprehensive Area Assessment	Fieldwork	N/A	N/A	H
National Indicator Set	Fieldwork	N/A	N/A	H
Business Planning	Fieldwork	N/A	N/A	H
LPSA2 Certification	Fieldwork	N/A	N/A	H

## 8. Governance

- 8.1. Internal Audit continues to spend time in support of the development of the governance framework within the Council through attendance at the SMT Use of Resources and Governance Sub Group and other working groups. The final report for the review of the Manchester Partnership has been agreed with management and detailed reviews of the five thematic partnerships is ongoing. The review of the Annual Governance Statement has been split in two with the first tranche well advanced and further work planned for the year end.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
Manchester Partnership	Final	Substantial 		H
Annual Governance Statement	Draft	Substantial 	N/A	H
Thematic Partnerships	Fieldwork	N/A	N/A	H

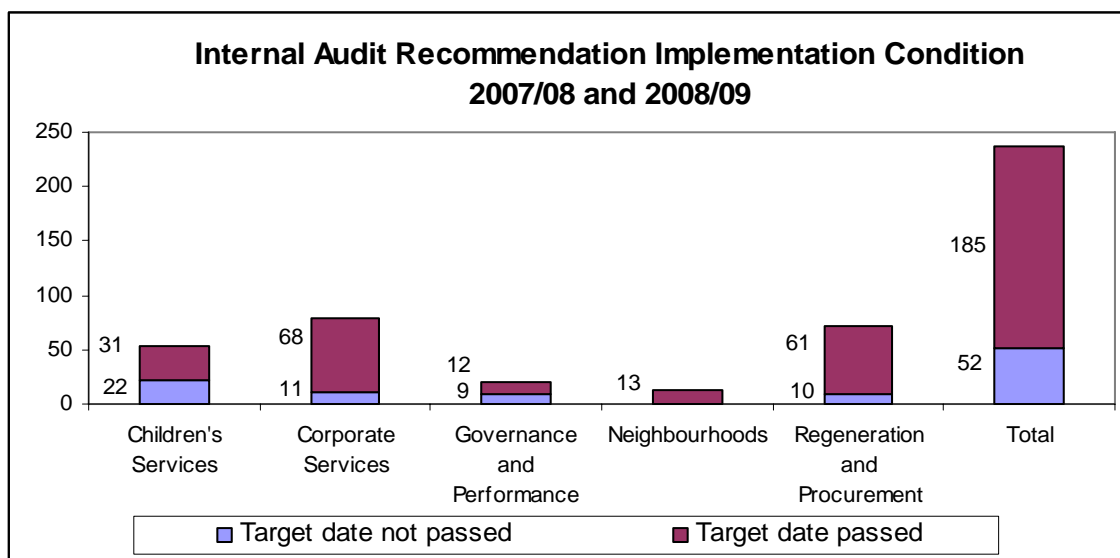
## 9. Fraud and Investigations

- 9.1. Internal Audit has coordinated the Council's submissions for the National Fraud Initiative Exercise. Some work has been required to ensure submissions were completed in full but detailed work will commence on the initial results of this exercise from January 2009.
- 9.2. Investigations concluded and ongoing are as follows:
- Internal Audit has concluded one minor investigations between October and December 2008 that did not identify any losses to the Council.
  - Two cases are ongoing where the investigations are being led by other Heads of Service with support from Internal Audit and six further cases are being actively investigated by the service.

- There are no potential fraud or corruption matters of which Internal Audit are aware that the Interim Head of Internal Audit considers require any additional reporting to the Audit Committee.

## 10. Implementation Condition Report

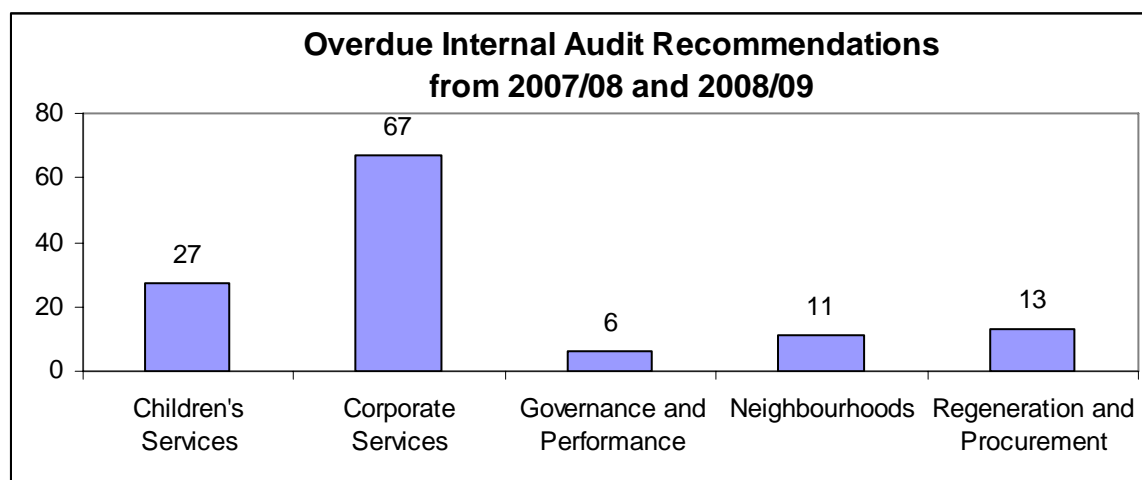
- 10.1. All Internal Audit reports contain recommendations and target dates for the implementation of agreed actions. It is the responsibility of management and Heads of Service to ensure that all these recommendations are implemented in accordance with agreed timescales and Internal Audit collates information as to the status of recommendation implementation and validates, on a risk basis, management confirmations.
- 10.2. A revised process was introduced from 1 October 2008 whereby Internal Audit request updates and follow up management actions on a quarterly basis. This information will be reported to SMT and subsequently to the Audit Committee. Internal Audit will only follow up recommendations that are less than 12 months past the agreed date for action. Any recommendations that have been outstanding for longer than 12 months will be referred back to Heads of Service and SMT.
- 10.3. The following shows the status of recommendations made in 2007/08 and 2008/09. 237 recommendations have been issued of which 52 (22%) have not yet passed their due date. This excludes schools that are referred to separately in section 10.6 below.



- 10.4. Of the 185 recommendations that have passed their due date, 51 (27%) have been implemented, two have been mitigated by other means and eight have been confirmed as implemented by management and are awaiting audit validation. This leaves a total of 124 (67%) that have not been implemented at their due date.
- 10.5. The revised approach to recommendation monitoring places greater emphasis on management to make audit aware of the actions taken in response to recommendations. On this basis actions may have been taken but not reported

as such and Internal Audit will continue to raise awareness of these revised procedures within the remaining three months of the year.

10.6. The split of these across the key auditable areas of the Council is as follows:



10.7. Of the 124 recommendations set out above, 41 are considered high priority. The key issues in each of these areas that remain outstanding are as follows:

#### **Children's Services**

- Over half of the 27 recommendations relate to a review of Sure Start in respect of which there has been no further information provided by the service as to the status of the outstanding recommendations.

#### **Corporate Services**

- Eight recommendations relate to the Departmental Information Security Review and eight to a review of SAP that may be addressed as part of the Council's development of an Information Strategy and ICT Strategy. The transfer of the ICT service from Corporate Services to the Manchester Improvement Programme has also made it difficult for senior management to confirm the current status on these recommendations within the required timescales so it is hoped an improved position can be reported in the next quarterly update.
- 15 recommendations relate to the review of recruitment activity in February 2008 and another eight to the review of Legal Debt Recovery. There has been some confusion as to whether these recommendations have been superseded by the Personnel and Financial Management Service Improvement Projects but until such time as appropriate controls are in place to address to identify risks Internal Audit consider that they remain outstanding.
- Nine recommendations relate to revenue budget monitoring and we are aware that significant work is underway in this area and will be assessed as part of an ongoing internal audit review in 2008/09.

#### **Governance and Performance**

- Five of the outstanding recommendations relate to a review of the Scheme of Delegation in May 2008 where management from across the Council have yet to confirm the status of recommendation implementation.

## Neighbourhoods

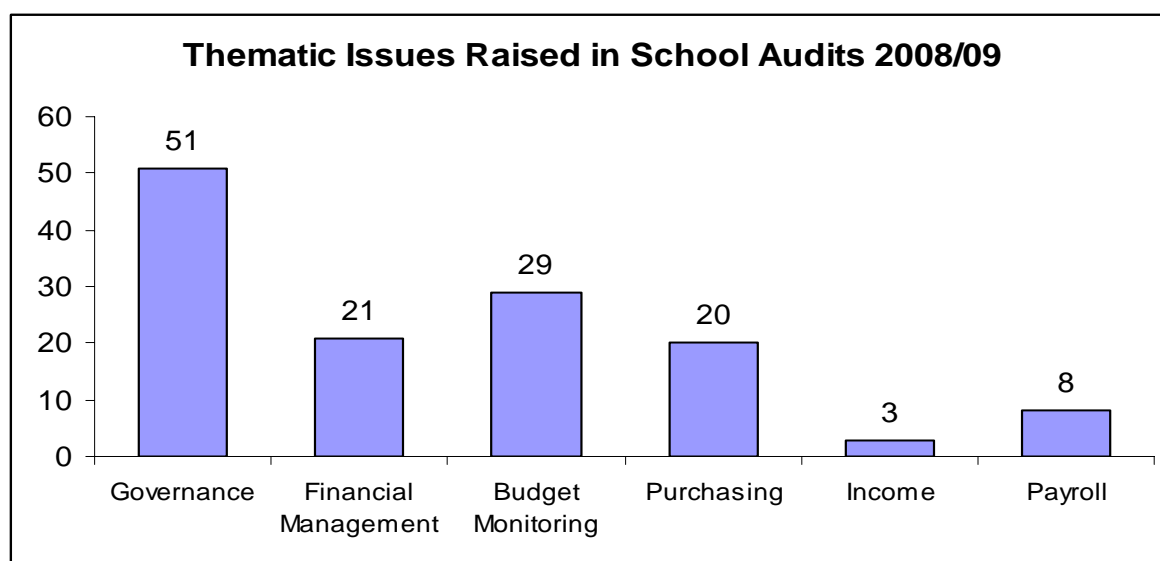
- The outstanding issues relate to the Client Financial Services Unit and Residents Payments reviews in Adult Social Care in 2008. Internal Audit are aware of pressures on the finance teams in this area but will continue to press for updates implementation.

## Regeneration and Procurement

- Three of the recommendations relate to the Urban Traffic Control Unit and given the significant nature of concerns raised in the original audit report Internal Audit will follow-up progress again in February 2008.

## School Audits

10.8. Given the volume of recommendations arising from school audit reports and change in reporting format the following analysis relates to 2008/09 only. The current position for schools is that 290 recommendations have been made and of these 132 have passed their agreed implementation date. Of these only ten are considered to be high priority. The types of issues that have been raised in the year are shown below and this illustrates the need for actions to be taken to secure improvement in respect of governance and general financial management arrangements.



10.9. Progress in the implementation of a number of these recommendations will be picked up in the period to March 2009 as part of the annual FMSiS assessment process.

## Summary

10.10. This is the first time that the implementation condition reports have been used on a quarterly basis and it is recognised that progress may have been made but not fully reported to Internal Audit by Heads of Service and Head Teachers. Internal Audit will continue to emphasise the need for management confirmation of progress in advance of the next quarterly report.

