

MANCHESTER CITY COUNCIL

REPORT FOR INFORMATION / RESOLUTION

COMMITTEE Audit Committee
DATE: 30 October 2008
SUBJECT: Internal Audit Assurance Update
REPORT OF: The City Treasurer

PURPOSE OF REPORT

To provide the quarterly assurance update, along with an update on the operational management and development of the Council's Internal Audit Service.

RECOMMENDATIONS

Members are requested to note the operational update, assurance update and proposals for further service development.

FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS:

None

<u>CONTACT OFFICERS</u>	<u>Tel Number</u>	<u>E~Mail Address</u>
Richard Paver	234 3564	r.paver@manchester.gov.uk
Tom Powell	234 1433	t.powell@manchester.gov.uk

BACKGROUND DOCUMENTS

Internal Audit assignment reports

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 Quarterly Assurance Update Report July 2008 – September 2008

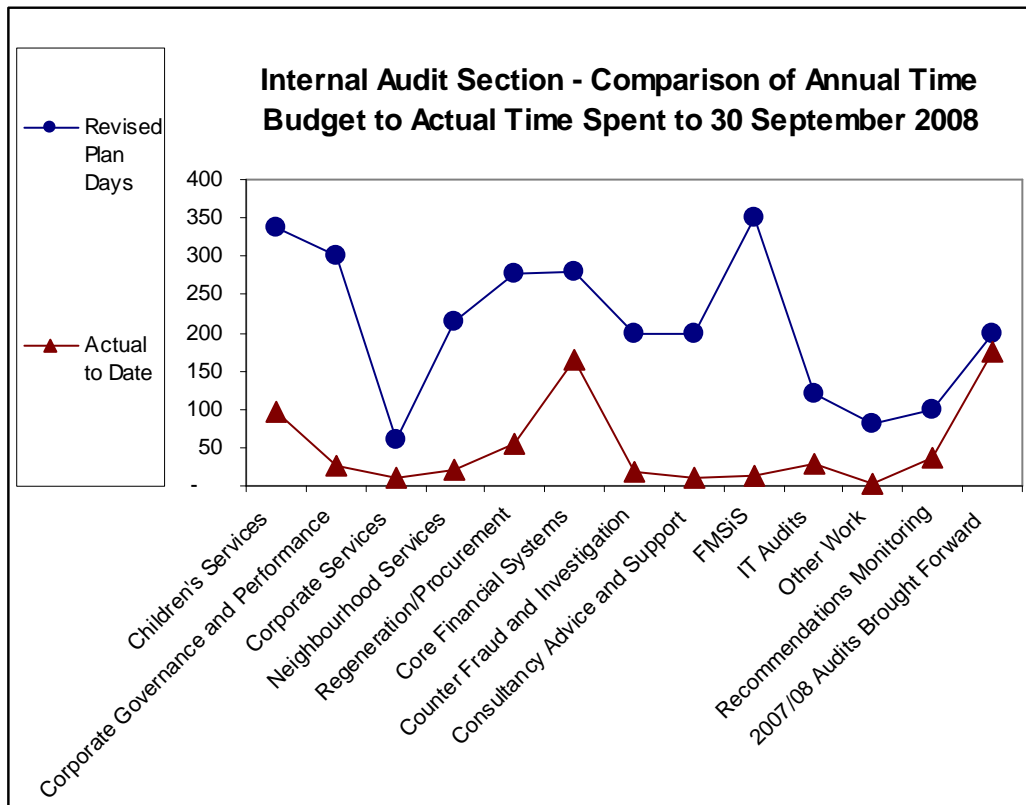
1. Introduction and Background

- 1.1. This report provides an update of internal audit activity at Manchester City Council for the period July 2008 to September 2008. The content is as follows:
 - Section two is an update of key issues being addressed in the operational delivery of the service.
 - Sections three to ten comprise the assurance update for the period from 1 July 2008 to 30 September 2008 and is a summary of assurance opinions issued in assignment reports.
 - Section eleven is an update on progress against the Interim Head of Internal Audit's project plan.
- 1.2. Members of the Audit Committee are asked to note the report.

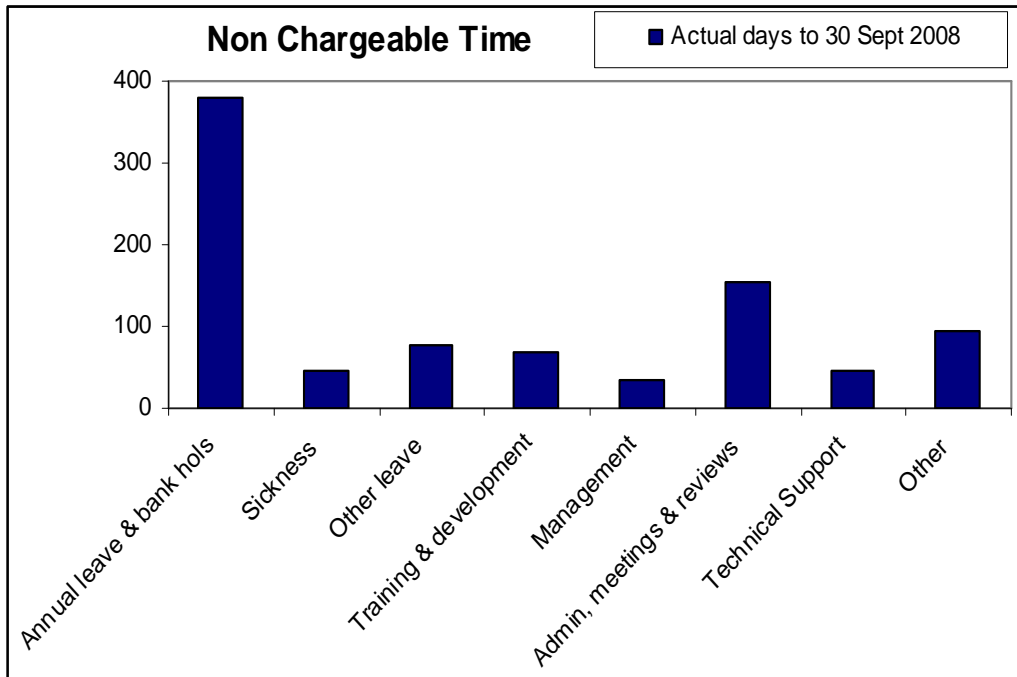
2. Operational Activity Update

- 2.1. Work is ongoing in the consolidation of Internal Audit performance management information with much of the recent focus in the service being on the development of the approach to audit.
- 2.2. A number of key performance indicators are being developed for the service. These are set out in the project plan update in section eleven of this report. The arrangements to enable effective consolidation and reporting of this information are being developed but key points to note in the operational management of the service are as follows:
 - A revised audit plan for 2008/09 has been developed for Audit Committee approval. A detailed analysis of available staff time and the scope of individual audits has been undertaken to ensure that the delivery of this plan is realistic. From this work a challenging target has been agreed with the team and they have been able to identify a planned reduction of 600 days of direct audit time, largely in respect of consultancy and advice (200 days), recommendations monitoring (100 days) and schools (54 days). Delivery against the revised plan is being actively monitored and managed and updates will be provided to the Audit Committee in subsequent assurance reports. It is important to note that this reduction is not ideal as it limits Internal Audit's advice and support role and means there is minimal capacity to respond to any additional demands for Internal Audit support from within the Council.
 - These reductions are yet to be translated into actual savings and are not considered to be reflective of the amount of audit coverage that would be delivered by a best in class Internal Audit service. These arrangements are for the interim period and are designed to enable delivery of the 2008/09 audit plan but should also provide a sound basis for the development of the 2009/10 plan.

- As expected, progress against this plan was slow during the peak summer holiday period in July and August but activity and outputs have increased in September. As shown in the chart below, most of the direct audit time has been spent in reviews of the core financial systems (165 days) and a similar focus is currently being applied for school audits (98 days). The chart also illustrates the budgeted days for work to be undertaken on the Financial Management Standard in Schools (“FMSiS”) planned for delivery in the period January to March 2009.



- The original Internal Audit plan for 2008/09 included 300 days for the assessment of schools’ compliance with the Financial Management Standard in Schools (“FMSiS”) and recognised that should planned recruitment be unsuccessful an external resource would be required to assist with the delivery of this work. As reported to Audit Committee in September 2008 the Interim Head of Internal Audit has suspended recruitment pending the conclusion of his review of the service and as a consequence will be seeking cost effective solutions to this resource shortfall through the Council’s Financial Framework Contract.
- The total time spent on direct audit activity (excluding management) in the quarter to 30 September was 46%. Over half of the remaining, indirect time was due to planned annual leave, bank holidays and maternity leave. Significant time in the period was also spent on meetings and 1:1 sessions and whilst there will be an ongoing need for such communication the frequency of these will reduce in the next quarter.











- Between June and September there were 46 days of sickness absence. Although sickness absence continues to present a risk it is being closely monitored and action will be taken to ensure that this does not have a detrimental impact on the achievement of the audit plan.

1.2. In summary, the quarter to September 2008 was a period of transition for the operational delivery of the service. The arrival of the Interim Head of Internal Audit brought understandable uncertainty for the team but within this context the service has concluded Job Evaluation, successfully recruited an Audit Manager and delivered ongoing assurance to management and Members as set out in section three below.

3. Assurance Update

- 3.1. This is the first Internal Audit assurance update for Manchester City Council for 2008/09. It 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. In previous years, Internal Audit reported on audit activity to the year ended 30 June. From 2008/09, and in accordance with the Council's financial reporting, business planning and annual governance statement timetables, Internal Audit will report activity to the year ended 31 March. This means that for 2008/09 there will be three assurance reports for the periods ending 30 September 2008, 31 December 2008 and 31 March 2009. This is the first of these reports.
- 3.3. From August 2008 there was a revision to the classification of Internal Audit assignment assurance opinions. This update reports Internal Audit's assurance opinion and the assessment of the capacity of the Council to respond to the risks identified in individual audits. The available assurance opinions and capacity to improve assessments are set out below and detailed explanations of the basis for these judgements are included in the template report in appendix 1.







Assurance Opinions		Capacity to improve	
Full		High	
Substantial		Medium	
Moderate		Low	
Limited			
No			

- 3.4. Internal Audit assurance work is largely aligned with the Council's directorates and it is on this basis that the report is structured. Audit activity that has resulted in the issue of assurance opinions and the key issues emerging from work in each of these areas is set out below.

4. Corporate Services



- 4.1. The focus of Internal Audit's work in relation to Corporate Services to September 2008 has been on the core financial systems. Significant time has been spent planning this work and ensuring that the coverage of work was sufficient to meet the requirements of External Audit. This has resulted in these audits taking longer than originally planned although the investment of planning time in 2008/09 should help ensure a more effective approach to this work in 2009/10. The Treasury Management review has been finalised and reports on National Non-Domestic Rates and Council Tax have been issued for management comment.



- 4.2. Two further audits have been finalised, in respect of purchase cards and the SAP financial system. The purchase card audit identified areas for improvement in what remains a developing system and the SAP audit identified areas for improvement around aspects of system security. Internal Audit can report that management are taking appropriate steps to address recommendations.
- 4.3. Fieldwork is underway on a further four audits and for both payroll and housing benefit the work in these areas is almost complete.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
Treasury Management (System Audit)	Final	Substantial 		H
Purchase Card (Review of Expenditure Approval)	Final	Limited 		M
SAP Basis	Final	Limited 		H
National Non Domestic Rates (System Audit)	Draft	N/A	N/A	H
Council Tax (System Audit)	Draft	N/A	N/A	H
Payroll (System Audit)	Fieldwork	N/A	N/A	H
Housing Benefit (System Audit)	Field work	N/A	N/A	H
Asset Management	Fieldwork	N/A	N/A	H
E-Mail Policy	Fieldwork	N/A	N/A	M

5. Regeneration

- 5.1. Two audits have been completed in the period, one audit is at draft report stage and fieldwork is underway on a further four.
- 5.2. The audit of capital programme monitoring provided substantial assurance that processes in place were effective for the management of projects, ensuring the capital programme reported to members was robust and deliverable. The review of urban traffic control resulted from an earlier investigation into procurement arrangements and as such Internal Audit had anticipated that there would be significant areas for improvement. The work confirmed this position and whilst the opinion was that no assurance could be obtained the financial risk is relatively minor within the overall context of the Council's operations and Internal Audit can report that management are progressing actions to address these issues.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
Capital Programme Monitoring	Final	Substantial 		H





Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
Urban Traffic Control	Final	No 		M
Housing Market Renewal	Draft	N/A	N/A	H
Manchester Adult Education Service	Fieldwork	N/A	N/A	H
ERDF Assurance Framework	Fieldwork	N/A	N/A	H
Manchester Project Methodology	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 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.

6.2. Two final reports have been issued to the Director of Children's Services:

- The review of external funding looked at how the service ensured that funding was managed, monitored and received consistently and effectively across the service. Recommendations were accepted by management and should help to ensure a clearer and more consistent approach to the management of funding and relationships with third parties.
- The School Budgets report focussed on whether there was a comprehensive, effective and coordinated approach to the management of school budgets and recommended a number of improvements to help ensure consistency of approach and compliance with financial management standards. The capacity to improve in this area reflects the devolved arrangements for schools' financial management and whilst a number of positive actions have already been taken, clarification of the assurance and governance framework for schools would help address a number of the issues raised in this report. Internal Audit and Children's Services are working together to this end.





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

- 6.3. 33 primary school audits were proposed within the 2008/09 Internal Audit Plan and work is well underway to ensure the delivery of these. Four primary school reports have been issued as draft and fieldwork has been completed on a further ten. Five final reports have been issued for primary schools and two have been issued for high school audits carried forward from 2007/08.
- 6.4. Key themes emerging from primary school audits included 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.

School	Assurance Opinion	Capacity to Improve
St Paul's Catholic High School	Moderate 	
Whalley Range High School	Substantial 	
Barlow Hall Primary School	Substantial 	
St Anthony's Primary School	Moderate 	
The Grange School	Moderate 	
Higher Openshaw Primary School	Moderate 	
Ashgate Special School	Moderate 	

7. Neighbourhoods

- 7.1. A key area of focus in Neighbourhood Services has been the arrangements for the implementation of Individual Budgets within Adult Social Care. A number of recommendations have been made to improve control in this area and actions are being taken by management to address resource issues that should result in an increase in the capacity to improve in this area.
- 7.2. The work for the Mersey Valley Joint Committee was the result of a request for urgent support and whilst areas for development were noted this work resulted in an unqualified audit opinion. Under a contractual arrangement Internal Audit also issued a final report for the Traffic Penalty Tribunal (Formerly NPAS).

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
Individual Budgets	Final	Moderate 		H
Mersey Valley Joint Committee	Final	Substantial 		N/A
Older People Care Provider Monitoring	Draft	N/A	N/A	M
Individual Budgets (Update)	Fieldwork	N/A	N/A	H

8. Performance

- 8.1. Planning is well advanced for two key audits in respect of the Comprehensive Area Assessment and National Indicator Set. Two reports relating to LPSA2 Indicators and Best Value Performance Indicators that were included in the 2007/08 audit plan have been issued as final. Both of these reports were issued under the previous report format but we consider the assurance opinions for each of these to be substantial.

9. Governance

- 9.1. Internal Audit continue 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 the Governance Working Group. The draft report for the review of the Manchester Partnership is being agreed with management and a review of the Annual Governance Statement is due to commence in November.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve	Audit Plan Risk
Manchester Partnership	Draft	N/A	N/A	H

10. Fraud and Investigations

- 10.1. Internal Audit has coordinated the Council's submissions for the National Fraud Initiative Exercise. The results of data matches and subsequent analysis will commence in January 2009.

- 10.2. Investigations concluded and ongoing are as follows:

- Internal Audit have concluded four minor investigations between July and September 2008. None of these resulted in other than minimal losses to the Council and actions have been taken to prevent reoccurrence.
- Two specific cases notified to Internal Audit are being assessed to determine whether any further work is required from Internal Audit or whether they can be referred back to management.

- We are also aware of a five additional cases where management investigations are ongoing and Internal Audit are maintaining a watching brief. Four of these have some common characteristics and Internal Audit will ensure that the risks identified are evaluated and appropriate actions are taken to address areas for improvement.
- 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.

11. Project Plan Update

- 11.1. In September 2008 the Audit Committee was presented within the Interim Head of Internal Audit's outline project. To assure the Committee of ongoing progress this is attached as an update for information. Whilst development work as set out below continues the key areas of focus in September and for the quarter to December 2008 are on delivery and the timely turnaround of quality reports.
- 11.2. Members are asked to note the report and the actions taken in respect of Internal Audit.

Proposed Actions	Update as at 23 October 2008
<p>Hold 1-2-1 meetings with all staff and get their buy in to the new approach.</p> <p>Review staff objectives and begin to develop performance indicator based appraisal process</p>	<p>Karen Bellamy, an Audit Manager from Essex County Council visited Manchester and addressed the Internal Audit team on her experience of transforming Internal Audit in Essex. This session was considered beneficial for the team in this period of uncertainty.</p> <p>Continued slippage in Job Evaluation with final resolution in late September resulted in delay in the production of finalised, formal objectives. In the meantime the Interim Head of Internal Audit has issued guidance to all staff on their responsibilities within the audit process, from initial planning through to final reporting. This will be integrated into the Internal Audit Manual to be completed in November 2008.</p>
<p>Present broad proposals to the Council:</p> <ul style="list-style-type: none"> • Chair of Audit Committee • Chief Executive • SMT • City Solicitor • Head of Risk Management • External Auditors. • Other key stakeholders 	<p>As previously reported, proposals have been presented to all key stakeholders and this will included the Chief Executive in November 2008.</p> <p>There has been ongoing liaison with these stakeholders and in particular, work with the Risk Manager is resulting in a Council wide definition to classifications of risk that will help demonstrate consistency between audit and risk.</p>

Proposed Actions	Update as at 23 October 2008
Set vision and objectives of the service	Agreed and will be integrated into the Internal Audit Manual to be completed in November 2008.
Develop and publish Internal Audit strategy and anti-fraud strategy.	<p>Drafted and will be integrated into the Internal Audit Manual to be completed in November 2008.</p> <p>In October the Internal Audit, Fraud Investigation and Business Support teams received a presentation from a supplier of software that can be used to interrogate data to identify areas for efficiency or risks of fraud and corruption. A business case for the purchase of this software is to be presented to the City Treasurer.</p> <p>Interim Head of Internal Audit to nominate a Lead Auditor for fraud in early November 2008.</p>
Implement new reporting format and present at meetings with senior officers and DMT.	Implemented. All reports, including those for schools are now being issued in the new format (example attached for information at appendix 1)
Assess structure	<p>Structure has been assessed and whilst the overall principles of the current arrangements are reasonable, there is a need for greater focus from Internal Audit on:</p> <ul style="list-style-type: none"> • Fraud, including fraud risks and pro-active work. • Performance measurement and management across the Council, including value for money. • Governance – this justifies more time than can currently be committed at Lead Auditor level. • ICT – the current arrangements incorporate ICT audit into the Corporate Services Lead Auditor portfolio and whilst there is logic to this approach there is insufficient capacity to coordinate all the work required

Proposed Actions	Update as at 23 October 2008
	<p>in this area.</p> <ul style="list-style-type: none"> • Business Development – whilst much of this work will be undertaken by the Interim Head of Internal Audit this needs to be sustained beyond his contract. <p>In reality the service operates a flexible approach to the deployment of staff and this will continue. The numbers of staff and resource requirements will be assessed as part of outline planning for the 2009/10 Internal Audit Plan.</p>
Assess audit plan	The revised Audit Plan for 2008/09 is being presented to Audit Committee for approval in October 2008.
<p>Assess and establish roles and responsibilities at all levels. To include roles for:</p> <ul style="list-style-type: none"> • Governance • Anti-fraud • Quality control • Delivery managers <p>• Also to assess roles in respect:</p> <ul style="list-style-type: none"> • Learning & Development • Knowledge management • Methodology development • ICT audit 	<p>Roles for Governance will continue to reside with an Audit Manager and Lead Auditor.</p> <p>Central fraud role will be assigned to a Lead Auditor role in November 2008.</p> <p>All of the following are currently being delivered in part of the time available to Lead Auditors but are proposed for inclusion in a full time business development manger role:</p> <ul style="list-style-type: none"> • Quality control • Learning & Development • Knowledge management • Methodology development • ICT audit
Review and (where appropriate) revise coding structure to ensure time charged reflects time spent by all grades on client / non-client work.	Coding arrangements form part of the review of management information and initial analysis presented to Audit Committee in section two above.
Review a sample of files and reports	Ongoing review and feedback being provided all via Audit management team.
Implement revised (interim) structure	Minimal changes to be introduced

Proposed Actions	Update as at 23 October 2008
Assess resource requirements	<p>for November 2008.</p> <p>The numbers of staff and resource requirements will be assessed as part of outline planning for the 2009/10 Internal Audit Plan. Initial benchmarks indicate the service has fewer resources than comparable Councils and this is reflected in the volume of work being produced. Efficiency is part of the solution to this but even with such gains there is a likely need to increase resources. These requirements will be determined as part of outline audit planning for 2009/10.</p>
Review audit methodology.	Reviewed and new guidance issued to the team on roles and responsibilities, assurance opinions, recommendations and monitoring of implementation (see appendix 2).
<p>Implement Performance Management information pack for Interim Head of Internal Audit and City Treasurer – to be linked to Audit Committee information requirement :</p> <p>Likely to include:</p> <ul style="list-style-type: none"> • % plan delivered • Implementation rates for recommendations • All critical, major and significant priority findings which have passed their implementation dates but are not implemented • Auditee satisfaction feedback • Staff utilisation data by person • Staff sickness 	<p>Baseline data being collated for inclusion in pack. Aim is for monitoring to commence from 1 October 2008.</p> <p>Implementation rates will be monitored under new arrangements as set out in appendix 2.</p>
<p>Develop Staff Training programme. Based on feedback to date and development needs identified.</p> <p>Roll out risk based audit training for all staff. Other training options could include:</p> <ul style="list-style-type: none"> • Value for Money audit • IT Controls • Presentation Skills 	<p>Training session planned for November 2008. Initial training and guidance on roles and responsibilities and session on reporting delivered by Interim Head of Internal Audit in October. Support being provided by PricewaterhouseCoopers specialists in the approach to audit and ICT controls also in November.</p>

Proposed Actions	Update as at 23 October 2008

Appendix 1 – Sample Internal Audit Assignment Report

Internal Audit Report

<Audit Title>

Report To:

Report Status:

<DRAFT/FINAL>

Additional Report Distribution:

Auditor:

Fieldwork Commenced:

Draft Report Issued:

Management Responses Requested By:

Final Report Issued:



MANCHESTER
CITY COUNCIL

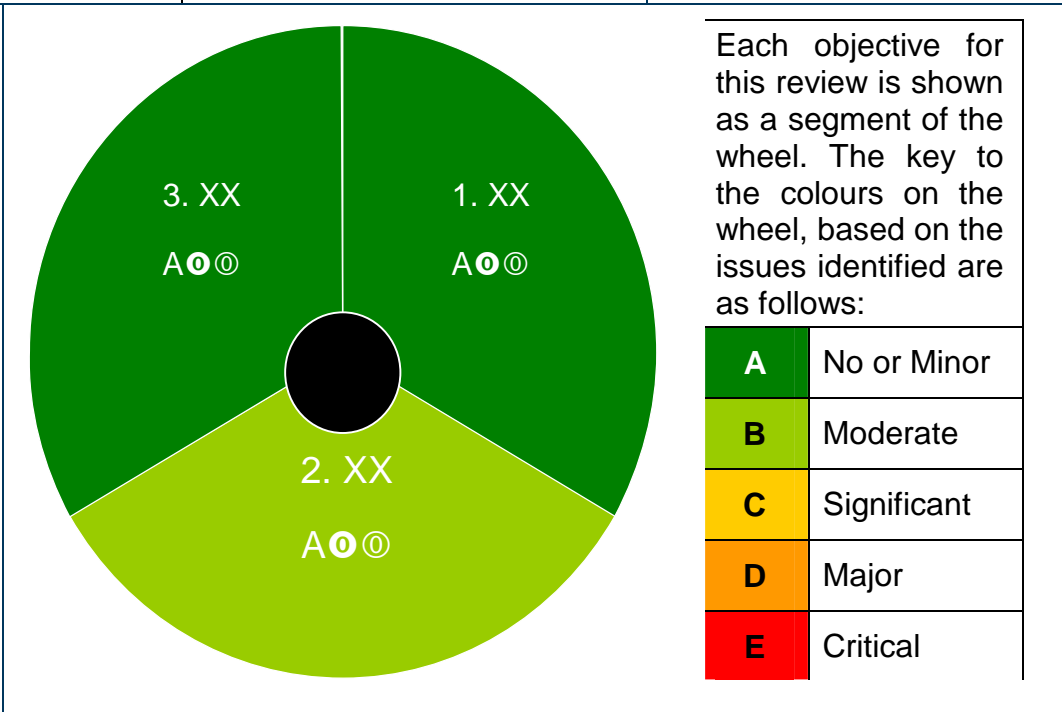
1. Executive Summary

<p>Overall Assurance Opinion (See Appendix 1)</p> <p>FULL ●</p> <p>SUBSTANTIAL ● ✓</p> <p>MODERATE ●</p> <p>LIMITED ●</p> <p>NO ●</p>	<p>Capacity to Improve</p> <p><i>This assessment will be informed by the management response to recommendations raised in this report.</i></p>	<p>Number of control issues identified</p> <p>① Critical</p> <p>① Major</p> <p>① Significant</p> <p>① Moderate</p> <p>① Minor</p>	<p>Number of compliance issues identified</p> <p>① Critical</p> <p>① Major</p> <p>① Significant</p> <p>① Moderate</p> <p>① Minor</p>
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Audit Objective

To determine whether there are:

1. XX
2. XX
3. XX






Limitations:	
Context:	
Areas of Good Practice: <ul style="list-style-type: none"><li data-bbox="69 395 100 414">•	
Areas for Improvement: <ul style="list-style-type: none"><li data-bbox="69 722 100 742">•	

2. Review of Risks


Risk Register Updates

The work of Internal Audit should be informed by the Council’s risk management arrangements and the assessment of Business Plan and Corporate risks (registered risks). During the performance of its work Internal Audit can also help identify risks that are not recorded on risk registers (unregistered risks).


This audit has considered registered risks and concluded, based on testing performed, whether they are fully , partially  or not  managed.

Risk Register	Risk Ref	Risk	Risk being managed
<Corporate/ Directorate>	X-ref	<Risk per risk register>	
	X-ref		
	X-ref		






From critical, major and significant issues identified in this audit we have identified the following unregistered risks that should be added to risk registers.




Risk Register	Issued Ref	Risk	Risk being managed
<Corporate/ Directorate>	X-ref		
	X-ref		
	X-ref		






3. Detailed Findings Recommendations and Action Plan

	Matters Arising	Potential Risk Implications	Recommendations	Priority	Management Response and agreed actions
Risk / Process					
Audit Objective: <from audit objectives above>					
1				 Moderate (<Control or Compliance>)	Agreed: [Yes/No] Action to be taken: [Text] Additional Resources Required for implementation: [Yes/No] Responsible Officer: [Name & Title] Target Date: [Text]

Appendix 1. Basis of our opinion and level of assurance

Level of assurance	Description
Full 	Full assurance – there is a sound system of internal control designed to achieve the objectives of the system/process and manage the risks to achieving those objectives. Recommendations will normally only be Advice and Best Practice.
Substantial 	Substantial assurance – whilst there is basically a sound system of control, there are some areas for improvement, which may put the system/process objectives at risk. There are Moderate recommendations but these do not undermine the system’s overall integrity. Any Major or Significant recommendations relating to part of the system would need to be mitigated by strengths elsewhere. Any Critical recommendations will prevent this assessment,
Moderate 	Moderate assurance – there are some areas for improvement in the system of internal control, which may put the system/process objectives at risk. There are a small number of Major recommendations or a number of Significant recommendations. Any Critical recommendations would need to be mitigated by significant strengths elsewhere. A number of Critical recommendations would prevent this assessment.
Limited 	Limited assurance – there are significant areas for improvement in key areas of the systems of control, which put the system/process objectives at risk. There are Major recommendations and any Critical recommendations relating to part of the system would need to be mitigated by significant strengths elsewhere.
No 	No assurance – an absence of effective internal control is leaving the system/process open to significant error or abuse. There are Critical recommendations indicating major risks requiring mitigating actions.

Capacity to improve	Description
High 	The assessment will be based on a number of factors including: Recommendations progressed since the start of the audit; timescales for the implementation of agreed recommendations; levels of resources / capacity to effect implementation; focus and clarity of ownership within directorate / service for implementation; directorate / service track record in implementation of agreed recommendations; professional auditor judgement.
Medium 	
Low 	

Risk	Assessment rationale
 E. Critical	<p>Life threatening / multiple serious injuries or prolonged work place stress. Severe impact on morale and service performance. Intense political and media scrutiny i.e. national media coverage / prolonged local media coverage. Possible criminal, or high profile, civil action against the Council, members or officers. Cessation of core activities, Strategies not consistent with government's agenda, trends show service is degraded. Failure of major Projects – elected Members & SMT required to intervene. Large increase on project budget/cost: (Greater of £1.0M of the total budget or more than 15 to 30% of the departmental / service area / school budget). Statutory intervention triggered. Impact on the whole council</p>
 D. Major	<p>Serious injuries or stress requiring medical treatment with many workdays lost. Major impact on morale and performance. Scrutiny required by external agencies, external audit etc. Unfavourable national or prolonged local external media coverage. Noticeable impact on public opinion. Major impact on the effectiveness of governance for the Council. Significant disruption of core activities / performance. Key targets missed, some services compromised. Senior Management action required. Major increase on project budget/cost: (Greater of £0.5M of the total Budget or more than 6 to 15% of the departmental budget).</p>
 C. Significant	<p>Injuries or stress requiring some medical treatment with workdays lost. Some impact on morale and performance. Scrutiny likely to be exercised by external agencies, internal committees or internal audit to prevent escalation. Probable limited unfavourable local media coverage. Significant short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations not complied with. Impact on the effectiveness of governance at the Council or service level. Services unlikely to meet needs. Service action will be required. Significant increase on project budget/cost: (Greater of £0.3M of the total Budget or more than 3 to 6% of the departmental budget). Handled within the team</p>
 B. Moderate	<p>Injuries / stress requiring some medical treatment, potentially some workdays lost. Some impact on morale and performance. Additional scrutiny required by management and internal committees to prevent escalation. Possible limited unfavourable local media coverage. Short-term disruption of non-core activities / service performance. Standing Orders / Financial Regulations occasionally not complied with. Minor impact on the effectiveness of governance at the Council or moderate impact at service level. Services do not fully meet needs. Service action will be required. Small increase on project budget/cost: (Greater of £0.1M of the total Budget or up to 3% of the departmental budget). Handled within the team</p>
 A. Minor	<p>Minor injuries or stress with no workdays lost or minimal medical treatment. No impact on staff morale Internal Review, unlikely to have impact on the corporate image. Minor errors in systems/operations or processes requiring action or minor delay without impact on overall schedule. Handled within normal day to day routines. Some impact on the effectiveness of governance at service level. Minimal financial loss – Minimal effect on project budget/cost: Negligible effect on total Budget or departmental budget).</p>

Appendix 2 – Recommendations Monitoring Approach

The Code of Audit Practice 2005 states 'it is management's responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively'

It is the responsibility of management and Heads of Service at Manchester City Council to ensure that all audit recommendations are implemented in accordance with agreed timescales. The Internal Audit service at Manchester City Council will collate information as to the status of recommendations implementation and validate, on a risk basis, management confirmations. Internal Audit will report this information on to Strategic Management Team (“SMT”) and the Audit Committee.

Management should maintain their own records of issues and recommendations agreed. Internal Audit will also maintain a record. Management should provide an update to Internal Audit to enable reporting to SMT and the Audit Committee as follows:

Submission by Management / Headteacher to Internal Audit by end of...	Internal Audit Update Report to SMT / Children’s Services Governance Team / in...	Internal Audit Update Report to Audit Committee in...
August	September	October
November	December	January
January	February	March
April	May	June

Internal Audit will remind management of these deadlines as they draw near but it is the responsibility of management to ensure that actions are taken to address recommendations on a timely basis. Internal Audit will validate management responses on the implementation of recommendations and require documentary evidence to demonstrate that actions have been taken and are operating effectively. The submission to Internal Audit should be accompanied by evidence of implementation (for example, updated policies, procedures, directions to staff). Where documentary evidence alone is insufficient to demonstrate the effectiveness of management actions, Internal Audit may also arrange to meet with you.

As well as providing assurance to Audit Committee the maintenance of these records will provide positive evidence to support the Head of Service and Strategic Director in the production of the Annual Governance Statement and in supporting the Council’s ambition to improve on its assessment under Use of Resources. For schools this will contribute to a positive assessment under FMSiS.

If recommendations are implemented between the submission of management’s formal response (column 1) and the meetings of SMT and Audit Committee, Internal Audit will reflect this in the report (up to within 10 days of the respective meeting).

Internal Audit will seek assurance over the implementation of recommendations even when they have passed the agreed implementation date. Any recommendations not implemented within 12 months of the agreed date will be reports as “not implemented / risk accepted” and reported as such to SMT and the Audit Committee. This is because a risk that has remained uncontrolled for this period cannot be considered to have been managed and the reality is that the business has had to accept the risk.

It is critical that Internal Audit recommendations are realistic, appropriate, and relevant. It is also critical that management only accept recommendations they understand and are prepared and able to implement within reasonable timescales.

Internal Audit will maintain a clearance process to ensure that findings and recommendations are complete and accurate. Once accuracy has been determined and agreed it will be possible for management to reject or modify recommendations. If, for example, mitigation of a risk would require significant, unavailable resources and management are prepared to accept the risk then this would be a rejected recommendation. Heads of Service should use this option where they consider it unlikely that recommendations will be implemented. Internal Audit will report rejected recommendations to SMT and Audit Committee to confirm that they agree with management’s assessment.