

REPORT FOR INFORMATION

COMMITTEE Audit Committee
DATE: 2 April 2009
SUBJECT: Internal Audit Progress Report 2008/09
REPORT OF: City Treasurer

PURPOSE OF REPORT

To provide an update on progress in the delivery of the Council's 2008/09 Internal Audit plan.

RECOMMENDATIONS

Members are requested to note the progress report

FINANCIAL CONSEQUENCES FOR THE CAPITAL AND REVENUE BUDGETS:

None

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BACKGROUND DOCUMENTS

Manchester City Council Internal Audit Plan 2008/09

WARDS AFFECTED N/A

IMPLICATIONS FOR KEY COUNCIL POLICIES

Anti-poverty Equal Opportunities Environment Employment

None None None None

Internal Audit progress update – 1 August 2008 to 31 March 2009

1 Background to report

- 1.1 The Audit Committee considered and approved the updated annual Internal Audit plan at its meeting on the 30 October 2008. This report describes progress towards the delivery of the plan as at 31 March 2009.

2 Summary

- 2.1 Good progress has been made in the delivery of the plan with fieldwork completed for the vast majority of the planned audits. For example, all of the planned primary school audits and most of the reports on the core financial systems have been completed and the external auditor (Grant Thornton) will commence the review of Internal Audit reports and files on the 30 March 2009.
- 2.2 Despite a number of key challenges, work is being finalised in all areas and the Interim Head of Internal Audit is confident that fieldwork and draft reports will be completed for all but two of the planned audits by the end of April 2009. It was anticipated that most reports would be completed in March 2009 but given the restricted access to ICT across the Council over the last six weeks this has not been possible. As a consequence, Members are advised that a number of reports that had been planned to have been issued in March will now have to be issued in April. Whilst there has been slippage in the delivery of ICT audit work, most of which will have to be carried forward into 2009/10, the impact has been felt across all service areas and has been one of the key risks to delivery as set out below.

3 Service Progress Summary

- 3.1 A full list of planned audits and current status is attached as appendix one and a summary for each of the blocks of audit work for 2008/09 is set out below. Of 57 planned reviews (excluding other work such as FMSiS and contracted work), 13 have been completed in full, seven have been issued as draft reports and two have been merged within other reviews. There are 23 reviews nearing completion with reports planned for issue April. Two reports will be issued in May 2009 and five reviews are recommended to be carried forward into 2009/10.

Governance and Performance

- 3.2 Of eleven planned reports, two have been completed and one has been issued in draft. The planned reviews of the Manchester Improvement Programme (MIP) and value for money have been merged following the external audit review of MIP and will be completed in April. All reviews will conclude in April other than the Annual Governance Statement (AGS) where ongoing support in development of the AGS will conclude as planned in May 2009.

Core Financial Systems and Corporate Services

- 3.3 Of nine planned reviews, five have been issued as final reports, one as draft and fieldwork has been completed on the remaining three. Additional reviews of capital budget monitoring and access to the academy system have been added to the plan during the year in agreement with the external auditor to help support their planned audit approach.
- 3.4 The corporate services reviews of asset management and revenue budget monitoring have been issued as draft reports for management comment.

Neighbourhoods

- 3.5 Three of the nine reviews have been completed with fieldwork completed or nearing completion for the remaining six. The completed reviews include work on individual budgets and business continuity. Draft reports for these will be issued in April 2009.

Children's Services

- 3.6 Final reports have been issued for all 33 primary schools on the plan. Support to the schools governance project is ongoing and the district model report has been issued as draft. The Financial Management Standards in Schools (FMSiS) assessments have been completed for 57 primary schools and final letters advising Head Teachers of the outcome of this work have been issued for 12 schools with the remainder to be issued in April 2009.
- 3.7 The Children's Services audits have been particularly affected by the ICT issues as the focus to the end of January 2009 has been on school audits and FMSiS. This has meant that the work specifically planned for February and March on procurement, children missing from education, education redesign and building schools for the future has been delayed. Despite these delays final reports are expected for all of these areas in April 2009.
- 3.8 To help compensate for these delays and in response to requests from management in Children's Services we commenced three additional secondary school audits. A draft report has been issued for one of these and the other two will conclude in April.

Regeneration and Procurement

- 3.9 Of ten planned reviews in the regeneration and procurement areas, one has been completed and one issued as draft. Fieldwork on the remaining reviews has or is nearing completion with reports planned for issue in April other than the review of framework contracts that is expected to conclude in May.

ICT

- 3.10 Of six planned audits, two have been completed but four will have to be deferred. ICT have understandably been unable to accommodate audit requests in the past six weeks and this is likely to be the case for at least four further weeks. On this basis these reviews will have to be deferred to 2009/10.

Other work

- 3.11 All work brought forward from the 2007/08 audit plan has been completed as planned. Counter fraud and investigation work is ongoing with a number of reports issued during the year and there are two significant reviews that will continue into April. The provision of advice and guidance, certification of grants and monitoring of recommendations is ongoing. External work for the Greater Manchester Integrated Transport Authority (formerly the Passenger Transport Authority) and the Traffic Penalty Tribunal (Patrol) will be concluded in April 2009.

4 Challenges to delivery 2008/09

ICT Issues

- 4.1 As Members are aware the Council has experienced ICT performance issues over the last six weeks. In common with colleagues across the Council, Internal Audit has had problems with access to systems and this has had a significant impact on the ability to deliver planned work efficiently, if at all. Whilst access to Internal Audit's own systems has improved recently it has been difficult to complete audits in February and March as colleagues across the Council have been understandably focusing their own resources on clearing backlogs to deliver their service priorities, particularly given the proximity to year end.
- 4.2 The Internal Audit team has implemented manual workarounds where possible but a significant proportion of time over the last six weeks has been spent on indirect work including housekeeping, file reviews and development of the 2009/10 audit plan approach.
- 4.3 The ICT problem has had a demonstrable impact on the delivery of ICT audit work by Salford Computer Audit Services. The Council's ICT service has been working hard to maintain service continuity and it has not been possible or desirable to divert the Council's team from this primary aim. Whilst two ICT audits have been delivered in the year, those planned for February and March 2009 will need to be deferred to 2009/10. The impact has not, however, been restricted to ICT. Planned audits and fieldwork in February and March have had to be postponed as service areas have not had system access or availability to facilitate audit work.

Available Staff

- 4.4 The revised Internal Audit Plan approved by Members in October 2008 was based on reasonable assumptions of staff availability. The service has, however, operated with three fewer staff than planned due to a long term sickness absence, a secondment and a resignation. This has resulted in an unanticipated reduction of 180 days of staff time. Whilst approximately 40 days of additional external resource has been purchased to support delivery, the absence of key staff has presented a challenge in both the delivery and management of audit work. The closing date for applications to the current Lead Auditor, Principal Auditor, Senior Auditor and Auditor vacancies was Friday 27 March and appointments to these posts will help address this staffing shortfall in 2009/10. At the same time the recruitment of the Head of Audit and Risk Management post is underway with a closing date of mid April 2009.

5 Conclusion

- 5.1 The assurance update will be presented to Members in May 2009 and an annual report will be provided in June 2009. Both reports will explain the progress made in the final delivery of the 2008/09 plan.

Appendix One

Audit Plan 2008/09 Progress Update at 31 March 2009

	Title	Scope	Status	Comments
Corporate Governance and Cross- Cutting Audits				
1	Comprehensive Area Assessment (CAA)	To assess and evaluate the effectiveness of developing processes to implement the CAA, offering advice and support as required.	Fieldwork	Audit has been involved in supporting the CAA process and will be reviewing all the KLOE submissions as they are finalised in April. Will issue a report on readiness and key considerations in April 2009.
2	Comprehensive Area Assessment (CAA) - National Indicators	To evaluate whether National Indicators data collection systems will accurately report performance. <u>Scope change:</u> From detailed planning work the focus of this review will be an assessment of the management arrangements to support continuous improvement against the National Indicators	Draft	Draft March 2009.
3	LPSA2 certification	To confirm the accuracy of reported results against the targets agreed as part of the LPSA2.	Complete	Final certificate and management letters issued
4	External Funding	To assess the approach to external funding arrangements and follow up on External Audit work. To include a focus on Area Based Grant and alignment with Council priorities.	Deferred	This audit was scheduled for March 2009 and was to be a cross cutting piece of work. Given the impact of the ICT issues this has not been started so recommend that be deferred to 2009/10
5	Value for Money policies and procedures	To assess the effectiveness of the Corporate approach to Value for Money in supporting service delivery. Includes the MIP / Procurement Savings scope from the original audit plan	Fieldwork	Given that the MIP was the subject of an external audit review in 2008/09 the scope of these two reviews was combined and focused on overall organisational value for money arrangements.
6	Manchester Improvement Programme	To assess the impact of, and to provide support for, the Manchester Improvement Programme in delivering sustainable business improvement. To review scope based on External Audit work.		Draft report April 2009

	Title	Scope	Status	Comments
7	Corporate Business Planning	To test business planning, assessing effectiveness and compliance with corporate processes across business areas.	Fieldwork	Internal Audit engaged in reviewing business plans in the year and whilst aware that the Business Planning process will subject to a refresh in 2009/10 will issue an Audit letter April 2009.
8	Manchester Partnership	To ensure governance in the five thematic partnerships operates effectively to deliver objectives. <u>Scope change:</u> Focus on the governance arrangements within the Partnership and compliance with the Council's Partnership framework	Complete	Final report issued
9	Corporate Performance Management	To assess the effectiveness of the monitoring and reporting of performance against Business Plan objectives across the Council.	Fieldwork	Given key role of the thematic partnerships and focus on business planning above, the Manchester Partnership review was extended to include an assessment of the thematic partnerships. Report issued April 2009.
10	Annual Governance Statement (AGS)	To audit and support the process for producing the Annual Governance Statement, including accuracy and completeness of assurance statements.	Fieldwork	Fieldwork on the corporate AGS is complete. Final work will conclude as planned in May 2009 as the AGS process itself is completed.
11	Crime & Disorder Unit	To assess the effectiveness of the Crime and Disorder Unit, focussing on partnership working and financial, performance and risk management.	Fieldwork	Partnership assessment including in Corporate Performance Management review so focus was amended to focus on delivery of objectives within Drug and Alcohol Strategy Unit . Report issued April 2009.
Core Financial Systems				
12	Benefits (including Housing) System	Assessment, evaluation and mapping of high level system controls supported by compliance testing to give assurance over the operation of the control environment and accuracy of transactions. Work to be informed by outcomes of external audit activities.	Complete	Final report issued
13	Council Tax System		Complete	Final report issued
14	National Non-Domestic Rates System		Complete	Final report issued
15	Income Systems		Draft	Draft report March 2009.
16	Treasury Management Systems		Complete	Final report issued
17	Creditor Payments Systems		Fieldwork complete	Draft report April 2009.

	Title	Scope	Status	Comments
18	SAP Payroll Systems		Complete	Final report issued
19	Cash/Income Collection and Receipting Systems		Fieldwork complete	Draft report April 2009.
20	System Reconciliation and Posting to General Ledger including Bank Reconciliations		Fieldwork complete	Draft report April 2009.
Directorate Based Audits				
Corporate Services				
21	Asset Management Plan	To assess the land and building asset management plan with a focus on backlog maintenance	Draft	Draft issued March 2009
22	Revenue Budget Monitoring	In consultation with External Audit this will focus on corporate arrangements for both revenue and capital budget monitoring as shown below.	Draft	Draft reports for both revenue and capital budget monitoring issued March 2009
Neighbourhood Services				
23	Individual Budgets (ASC)	To assess the adequacy and effectiveness of Individual Budget procedures, systems and spend.	Complete	Final report issued
24	Mersey Valley Joint Committee	Annual assurance opinion (new in year)	Complete	Final report issued
25	Adult Protection (ASC)	To ensure arrangements for protecting vulnerable adults are effective and comply with legislation.	Fieldwork complete	Draft report April 2009.
26	MiCare (ASC)	To support development and implementation of the MiCare system.	Fieldwork	Watching brief has been maintained in this area and an update will be obtained to inform an Audit letter April 2009
27	Business Continuity (Business Support)	To assess business continuity and emergency planning effectiveness.	Complete	Final report issued
28	Green City Strategy (Environmental Services)	To test Green City programme management and delivery against key objectives.	Fieldwork	Draft report April 2009.
29	Homelessness (Housing)	To test the effectiveness of the Homelessness Service in housing homeless people.	Fieldwork	Draft report April 2009.

	Title	Scope	Status	Comments
30	Anti Social Behaviour and Respect Agenda (Housing)	To assess the effectiveness of activity to reduce anti-social behaviour, in line with the Respect Agenda.	Fieldwork	Assurance being obtained through a report commissioned by the service. This is being reviewed and key findings will be included in an Audit letter April 2009
31	CIVICA - Universal Housing Management System	To provide assurance that the housing management system delivers as expected to support service delivery.	Fieldwork	Draft report April 2009.
Children's Services				
32	Primary School Audits	To establish whether school management and governance is effective and compliant with Council and Government regulation and legislation.	Complete	Final reports issued for 33 primary school audits.
33	Schools Governance	To support development through active membership of the Schools Governance Project Design Group.	Complete	Support ongoing in this area will form part of advice and guidance in 2009/10
34	Procurement in Schools	To ensure contracting and procurement decisions in schools are consistent with Financial Regulations, deliver value for money and are transparent.	Fieldwork complete	Draft issued April 2009
35	Building Schools for the Future	To assess whether the BSF programme meets the needs of Children's Services and schools by delivering planned targets and outcomes.	Fieldwork complete	Draft issued April 2009
36	Children's Services - District Model Restructuring	To test whether Children's Services District Model supports delivery of the C&YP Plan, focusing on delegations, consistency and governance.	Draft	Draft issued March 2009
37	Education Services Redesign Project	To support Education Service redesign, including evaluation of School Effectiveness Officer initiative.	Fieldwork complete	Draft issued April 2009
38	Children Missing from Education	To assess the adequacy of Council arrangements to identify and locate children missing from education.	Fieldwork complete	Draft issued April 2009
Regeneration/Procurement Services				
39	Corporate Contract Monitoring	To assess whether contract monitoring arrangements support Council and contract objectives and prevent waste and fraud.	Fieldwork	Draft issued April 2009

	Title	Scope	Status	Comments
40	Manchester Adult Education Service - Intervention, Tendering and Contract Monitoring.	To establish whether finance, outputs and outcomes record-keeping gives assurance that objectives are achieved and clawback / loss of funding minimised.	Fieldwork	Draft issued April 2009
41	ERDF	To build on the various reports issued in this area to assess the overall assurance framework for ERDF.	Fieldwork	Assurance framework mapped to be issued April 2009. Internal Audit continuing to support an additional review in this area and this has taken priority over the issue of the assurance framework report.
42	Planning Service Income - Use and Control of Section 106 monies and Planning Fees	To assess whether Section 106 contributions are allocated and used appropriately and whether income from planning fees is collected, secured and banked.	Fieldwork	Draft issued April 2009
43	Use of Framework Contracts	To provide assurance that the framework contracts deliver consistency, integrity and sufficient flexibility to the procurement process.	Fieldwork	Draft issued May 2009
44	Use of Manchester Project Management Methodology.	To evaluate whether the Manchester Methodology for project management is used to deliver projects on time to cost and quality.	Complete	Final
45	Partnership Service Delivery in PFI	To establish whether management arrangements are in place to assess how far service delivery is in line with contractual expectations.	Draft	Draft issued March 2009
46	District Strategic Regeneration Frameworks	To provide assurance that the DSRFs are implemented and managed to deliver the planned regeneration of the city.	Fieldwork	Draft issued April 2009
47	Heritage Security	To establish whether cultural assets held by the Council are identified, recorded and secured.	Fieldwork complete	Draft issued April 2009
48	Monitoring Consultants	To assess whether consultant output monitoring gives assurance that contract objectives and VFM are achieved and waste and fraud prevented.	Fieldwork	This audit is being delivered as part of the work on framework contracts.

	Title	Scope	Status	Comments
ICT Audits				
49	IT Access	To assess the adequacy of the Council approach to granting, changing and removing access to systems and utilities including applications, email and internet.	Deferred	Deferred to 2009/10
50	Acquisition, Control and Disposal of ICT equipment.	To review policy and procedures for the purchase, use, security and disposal of ICT equipment.	Deferred	Deferred to 2009/10
51	Penetration Testing	To review the vulnerability of Council ICT systems to external attack and misuse. This was expanded to include both external and internal penetration testing.	Draft	Draft issued April 2009
52	Internet Usage Review	To assess the controls over and risks arising from employee use of the internet.	Deferred	Deferred to 2009/10
53	Use and Security of Mobile and Wireless Technology	To assess the effectiveness of controls over the use of mobile and wireless technology.	Deferred	Deferred to 2009/10
54	Email Technical Infrastructure	To test the effectiveness of technical infrastructure controls deployed to support appropriate e-mail use.	Draft	Draft issued April 2009
Audits not in plan but delivered in the year				
55	Access to Academy	Additional audit as part of the work on the core financial systems as agreed with the external auditor	Fieldwork	Draft April 2009
56	Secondary School Audits	There was no budgeted activity for three secondary schools in the period to 31 March 2009. Work was brought forward to respond to specific risks and as a work-around for the IT issues.	Fieldwork	One draft report issued the school. Two drafts issued in April 2009.
57	Capital Budget Monitoring	As noted above and in consultation with External Audit the planned review of revenue budget monitoring was expanded to include a separate report on capital budget monitoring.	Draft	Draft reports for both revenue and capital budget monitoring issued March 2009
Other work				
	Financial Management Standards in Schools (FMSiS)	To manage and conduct the external assessment of 57 primary schools. This is the third year of assessment work.	Fieldwork	All initial assessments complete and work will conclude mid-April 2009.
	Greater Manchester Passenger Transport Authority (GMPTA)	Provide a bought-in internal audit service – three reports to be issued for the year and input to the annual governance statement.	Fieldwork	Draft April 2009

	Title	Scope	Status	Comments
	Traffic Penalty Tribunal (formerly NPAS)	Provide a bought-in internal audit service – two reports to be issued for the year	Fieldwork complete	Draft April 2009
	Counter Fraud and Investigation	To ensure the risk of loss to the Council through fraud, waste, mismanagement is minimised and to provide for development and implementation of proactive fraud work.	Ongoing	Work has focussed on reactive investigations and responses to whistleblowing allegations. A number of significant unplanned investigations are ongoing at year end and will carry forward into 2009/10. Also included the initial responses and investigations arising from the National Fraud Initiative. Annual activity in this area and any findings that impact on the systems of internal control will be reported separately to Audit Committee.
	Consultancy Advice and Support	Contingency allocation to enable a risk-assessed, flexible response to requests from senior management for resources to provide specialist advice and support.	Ongoing	Has included support to the Council's Business Continuity Team, advice on procurement and purchasing across the Council, advice to schools and other service areas on matters of internal control.
	Grant Certifications	To certify that Statements of Grant Usage submitted to central government accurately record eligible expenditure and that grants have been used in line with the terms and conditions. Examples include: Supporting People and Housing Market Renewal.	Complete	All certifications requested for 2007/08 have been completed.
	Recommendations Monitoring	Monitoring and review of implementation of recommendations for Service improvement and to address exposure to risk.	Complete	¼ ly reporting ongoing
	2007/08 Audit Completion	Completion of audits from started in 2007/08 but not completed by 30 June 2008 (c200 days delivered in the 2008/09)	Complete	Final reports issued on all audits brought forward from 2007/08