

---

**REPORT FOR INFORMATION**

**COMMITTEE**            Audit Committee

**DATE:**                24 September 2009

**SUBJECT:**            Quarterly Internal Audit Assurance Report 2009/10

**REPORT OF:**        City Treasurer / Head of Internal Audit and Risk  
Management

---

**PURPOSE OF REPORT**

To provide Members of the Audit Committee with the Internal Audit Assurance report for the period 1 April to 15 September 2009 (quarters one and two).

**RECOMMENDATIONS**

Members are requested to consider and comment on the Quarterly Internal Audit Assurance report for the period 1 April to 15 September 2009.

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

None

<b><u>CONTACT OFFICERS</u></b>	<b><u>Tel Number</u></b>	<b><u>E~Mail Address</u></b>
Richard Paver	234 3564	r.paver@manchester.gov.uk
Tom Powell	234 5273	t.powell@manchester.gov.uk

**BACKGROUND DOCUMENTS**

Internal Audit Plan 2009/10

**WARDS AFFECTED**    N/A

**IMPLICATIONS FOR KEY COUNCIL POLICIES**

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

## **2009/10 Internal Audit Assurance Report**

### **1. Background to report**

- 1.1. This report provides an update of internal audit activity at the Council for the period 1 April to 15 September 2009.
- 1.2. The major focus of work in the period to 30 June 2009 was the completion of audits from the 2008/09 Internal Audit Plan. Slippage caused by the ICT virus meant that delivery of the non-schools elements of the 2009/10 plan was delayed until July and the key messages from all of this work in the year to date are set out below.

### **2. Assurance Reports**

- 2.1. 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. This work has been categorised by Internal Audit teams, that broadly reflect the structure of the Council's directorates.
- 2.2. Reports from the 2008/09 Internal Audit plan that were issued in 2009/10 are included for completeness to ensure that Audit Committee are provided with all of the audit opinions issued in the period to 15 September 2009.

### **3. Corporate Services**

#### ***Financial Systems***

- 3.1. The period from 1 April to 15 September has seen the development of a new approach to the audit of the core financial systems. Four full system audits and eight compliance audits will be delivered in the year to provide assurance to the City Treasurer and external audit that controls are appropriately designed and are operating effectively. Planning has been completed for all of these audits and dates for completion agreed with management. Fieldwork is complete for the payroll audit and in progress for treasury management, cash receipting, debtors and creditors. It is too early to comment on likely assurance opinions but based on prior year experience and our current knowledge of Corporate Services it is not anticipated that significant issues will emerge from these audits. The Finance Shared Service Centre is fully operational and the Head of Financial Management has recently completed the implementation of a new staffing structure that should help ensure that the Council's financial management capacity and capability is further developed during 2009/10 and beyond.
- 3.2. Other financial work in the Corporate Services team has included a review of Council Tax exemptions and discounts. Fieldwork is largely complete and early indications are that good progress has been made in the development of controls to confirm that exemptions and discounts have been awarded appropriately. Fieldwork is complete in the audit of controls over external funding and findings are being drafted for report to management. Good progress has been made in this area although there are opportunities for further

improvement and coordination of monitoring activities that we will be proposing for consideration.

- 3.3. Compliance work in this period has involved the completion of reports on three significant grant claims where we were able to support the funding claims submitted by management. A review of the homeless housing benefit reconciliation has been delivered from the annual allocation for contingency and this is an area where further management actions will be required to further develop the existing systems of internal control.







### ***Non-Financial Systems***

- 3.4. Our work on three capital framework contracts was completed and we were able to provide substantial assurance over the award and use of these contracts. Current audit work supports this conclusion as the Council is in the process of delivering a North West Construction Hub as a result of its record of success in the development of framework contracts. Audit work is ongoing in reviewing the Council's role in this development to ensure that risks to its successful implementation are being appropriately managed.

### ***ICT Audit***







- 3.5. Two audits from the 2008/09 plan have been completed. Actions are being taken to respond to these and in particular the penetration testing report where management have taken immediate steps to respond to the vulnerabilities identified in our report.
- 3.6. We are pleased that the Council has recently appointed a Chief Information Officer and consider this should bring stability and direction to the ICT service. There is a high level ICT roadmap in place that sets the direction for the service over the next two years and delivery against the milestones in this plan will be a key area for future audit focus.
- 3.7. In July a workshop was held between Internal Audit and the ICT service to agree key risks and this reconfirmed that the focus on the 2009/10 audit plan was appropriate and consistent with the ICT roadmap. Work is underway in the delivery of this plan and fieldwork for the review of lifecycle management has been completed. This has reiterated previous audit concerns that the Council does not have comprehensive, complete and accurate register of all ICT assets. This is an issue that was known to the Chief Information Officer and resources are now in place to respond to this risk.
- 3.8. An interim report was issued in respect of the Council's submission for Government Connect. In advance of being accredited to connect with other government agencies via a secure electronic portal the Council has to demonstrate it has appropriate controls in place and this was the basis for the submission. An assessment was produced by the ICT service and reviewed by Internal Audit prior to submission by the City Treasurer. This demonstrated good progress and plans made in the implementation of ICT security measures



and will be revisited later in the year to ensure that all actions proposed in the submission have been completed.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
<b>Non-Financial Systems</b>			
2008/09 Use of Framework Contracts	Final	Substantial 	
<b>ICT</b>			
2008/09 ICT: E-Mail Policy	Final	Moderate 	
2008/09 ICT : External Penetration Testing	Final	No 	

#### 4. Regeneration

- 4.1. The capacity to improve has been finalised for four reports from 2008/09. In three of these areas Internal Audit is able to confirm that actions proposed will reduce the current assessment of risk. Final comments are awaited on one final report.
- 4.2. The review of heritage assets (art works and rare books) identified a need for the development of an overall Council strategy for the management of these assets and the establishment of specific management plans within libraries and galleries to minimise the risks associated with stock and assets. There have been delays in the agreement of final management responses as the two services have been assessing these risks in the context of their wider development plans and commitments. These wider issues include the time that management consider necessary to catalogue all gallery assets and the future proposals for central library within the Town Hall Complex project. As a result we consider there is a medium capacity to improve.
- 4.3. Fieldwork is underway on three of the audits from the 2009/10 plan and key issues will be reported to Audit Committee later in the year.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
2008/09 Heritage Security	Draft	Limited 	
2008/09 Manchester Adult Education Service	Final	Moderate 	
2008/09 District Strategic Regeneration Frameworks	Final	Substantial 	

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
2008/09 Planning Service – Section 106 Agreements	Final	Moderate 	

## 5. Children's Services





5.1. Internal Audit reports in respect of Children's Services relate to the Children's Services Directorate as well as 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.




### *Children's Services*

5.2. The capacity to improve has been finalised for two reports from 2008/09. In each of these areas Internal Audit is able to confirm that actions proposed will reduce the current assessment of risk. Final comments are awaited on three draft reports and have been escalated to Internal Audit management for follow-up action.

5.3. One of the audits was designed to provide assurance over the Council's arrangements to reduce the numbers of Children Missing from Education. Whilst we identified a number of areas of concern and a need to strengthen resources in this area management took urgent and immediate action to address key risks in this area so Internal Audit was able to conclude that there was a high capacity to improve.

5.4. In 2009/10 fieldwork has been completed on the review of the School Attendance Strategy and the development of Contact Point. In both of these audits we have identified areas for improvement that will be reported formally to management in the next three weeks.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
2008/09 Procurement in Schools	Draft	Limited 	tbc
2008/09 Building Schools for the Future	Draft	Substantial 	tbc
2008/09 District Model – Delegations	Draft	Moderate 	tbc
2008/09 Education Service Redesign	Final	Substantial	

			
2008/09 Children Missing from Education	Final	No 	

### Schools



5.5. 25 schools have been audited in the period to 15 September 2009. Audit findings continue to identify opportunities to develop schools' financial management and governance arrangements. These are thematic issues and internal audit is in the process of liaising with colleagues in Children's Services to evaluate other approaches to raising standards in these areas. Key issues identified include the need for more effective:


- cashflow forecasting and budget monitoring;
- procurement, including compliance with Schools Financial Regulations;
- segregation of duties and authorisations over income and procurement; and
- governing body approval, scrutiny and challenge of decision making.

5.6. Work on the assessment of primary and secondary schools against the Financial Management Standard in Schools (FMSiS) has been planned and the detailed assessments will start in November.











5.7. Seven closing schools have also been audited. Four of these are schools that closed and reopened on 1 September as Academies. Our audits identified significant concerns around schools' preparedness for closure and a lack of understanding and engagement with the Local Authority, particularly in respect of agreed closing financial positions. As with all Internal Audit reports a capacity to improve assessment was issued based on the responses provided. In some areas the response was insufficient to demonstrate that action would be taken in advance of closure and this is reflected in the medium and low assessments shown below. Work is ongoing in this area given the issues identified to ensure that any residual risks to the Council are being managed and lessons are learned for the future.





### Secondary Schools

School	Assurance Opinion	Capacity to Improve
Burnage High (draft)	Moderate 	tbc
King David High (draft)	Limited 	tbc



School	Assurance Opinion	Capacity to Improve
Chorlton High (draft)	Substantial 	tbc



### Primary Schools







School	Assurance Opinion	Capacity to Improve
Abbott Community Primary	Moderate 	
Broadhurst Primary (draft)	tbc	tbc
Chapel Street Primary (draft)	tbc	tbc
Crowcroft Park Primary	Moderate 	
Lily Lane Junior	Moderate 	
Old Moat Primary (draft)	tbc	tbc
Rodney House Primary (draft)	tbc	tbc
Saviour CofE Primary	Limited 	
Seymour Road Primary (draft)	tbc	tbc
St Anne's, Ancoats (draft)	tbc	tbc
Varna Street Primary	Substantial 	





School	Assurance Opinion	Capacity to Improve
Ashbury Meadow Community Primary (draft)	tbc	tbc
Cavendish Community Primary (draft)	tbc	tbc
Cheetwood Primary (draft)	tbc	tbc
Didsbury CofE Primary (draft)	tbc	tbc
Martenscroft Nursery (draft)	tbc	tbc
Rackhouse Primary	Moderate 	
Sandilands Primary (draft)	tbc	tbc
Sacred Heart Primary, Gorton	Moderate 	
St Agnes Primary (draft)	tbc	tbc
St James Primary, Gorton (draft)	tbc	tbc
Lily Lane Infant (draft)	tbc	tbc

### Closing Schools

School	Assurance Opinion	Capacity to Improve
St Edwards RC	Substantial 	



School	Assurance Opinion	Capacity to Improve
Bishops Bilborrow Memorial RC	Limited 	

School	Assurance Opinion	Capacity to Improve
North Manchester High School for Girls	Moderate 	
Brookway High	Limited 	
Plant Hill High	Limited 	

School	Assurance Opinion	Capacity to Improve
North Manchester High School for Boys	Limited 	
Parklands High	Limited 	

## 6. Neighbourhood Services

- 6.1. Fieldwork has been completed for the review of vetting and barring arrangements in the recruitment of staff working with vulnerable adults. This has demonstrated good progress in the development of controls and in particular the arrangements to ensure all staff are subject to criminal record checks. This work is being supplemented by an ongoing Internal Audit review of casework management, access to the Micare system and an audit of cash handling for vulnerable adults. This is a key area of focus given the inherent risks in handling cash on behalf of vulnerable adults and at this stage there appears to have been good progress made in this area to address concerns raised in previous years.
- 6.2. Contingency work has included advice and support to the Council's Business Continuity Manager and compliance work on the issue of Blue Badges for disabled persons' parking. We were pleased to find high levels of compliance with procedures and policies for the control of the Blue Badges and a high level of management commitment to further develop and improve efficient and effective systems of control.

Audit Area	Audit Status	Assurance Opinion	Capacity to Improve
2008/09 Drug and Alcohol Strategy Team (DAST)	Final	Moderate 	

## 7. Performance, Governance and Cross Cutting work

### *Performance*

- 7.1. Fieldwork is progress for the audits of the Local Area Agreement and Data Quality. Initial support has been provided to Corporate Performance in the development of a Data Quality Action plan and this is being supplemented by detailed testing of performance indicators.
- 7.2. An unplanned audit has also been completed on National Indicator 158 (Decent Homes Standard) to ensure that data supports the accurate reporting of performance in this area. Based on this our work we were able to confirm that

the indicator was reasonably stated but have made recommendations for further improvement.

### **Governance**

- 7.3. Internal Audit conducted a review of Heads' of Service Annual Governance Statement (AGS) submissions and has reported findings to the Head of Financial Management. Recommendations included the development of understanding of the AGS process and the retention of evidence to support management assertions. This report will be used to inform the SMT Governance Sub Group and be used to drive further improvement in the Council's AGS processes for 2009/10.
- 7.4. Governance arrangements are the focus of the Governance Sub Group of SMT. This group is chaired by the Deputy Chief Executive (Performance) and membership includes the Head of Financial Management, Head of Legal Services and Head of Internal Audit and Risk Management. The group has a workplan designed to raise standards of governance and areas of current focus include governance in schools and partnerships and the management of key decisions. The existence of this group provides assurance that governance is being driven forward and AGS action planning is well underway to ensure that key issues identified through the AGS process in 2009 are being addressed during the year.

### **Cross Cutting Work**

- 7.5. Planning for the new business unit and strategy audits has been completed in the period and audits will start in quarter three.
- 7.6. Fieldwork has been completed for the People Strategy audit. This has confirmed a view held by management that it is an appropriate time for a refresh of the strategy and the associated governance arrangements and action planning. Enhancements to the business planning process, findings of the AIM project and other developments will feed into this refresh and we support the intention for this review.
- 7.7. Work is underway in support of the Town Hall Complex project. Initial meetings have been held with the director of the project and based on a high level review of arrangements there appear to be appropriate governance and programme management arrangements in place. Detailed testing of these initial assertions will be assessed through an audit of the procurement processes that started in September.

## **8. Investigations**

- 8.1. Internal Audit has carried out a number of investigations referred during the period to 15 September 2009, either independently or by offering advice and support to managers and investigating officers. There has been a wide variety of investigations including whistleblowing allegations and suspicions reported by management. The work included examination of potential fraud and corruption, theft of assets including money and poor management practice. Reports have

been provided to relevant managers and recommendations for action and system improvements made as necessary.

- 8.2. Internal Audit has been notified of 28 cases of potential irregularity since 1 April 2009. Seven of these have been internal whistleblowing allegations. 14 of the cases are being investigated by management and the rest are being assessed and investigated by Internal Audit, of which:
- Three are in the process of being assessed for risk;
  - Fieldwork is ongoing in two;
  - Fieldwork has been completed in five and reports are being drafted for discussion with management; and
  - Four have been concluded and final reports have been issued.
- 8.3. The issues being raised are varied and cut across all Council services. There are no particular thematic concerns that have been raised that suggest a systematic problem in any area of the business or any issues that suggest a significant breakdown in the Council's systems of control.
- 8.4. Work has included the ongoing facilitation of the Council's engagement in the National Fraud Initiative exercise. Investigations into potential fraudulent activity are ongoing but there are no matters of significant concern that would indicate a breakdown in systems of control.
- 8.5. The period saw the implementation of the IDEA software to facilitate interrogation of SAP and other financial systems. The first proactive audit using IDEA involved a review of purchase card expenditure and this software has also been used to support an investigation into potential financial impropriety. Work is ongoing to develop the use of this software as the need to respond to whistleblowers and other allegations has taken priority.

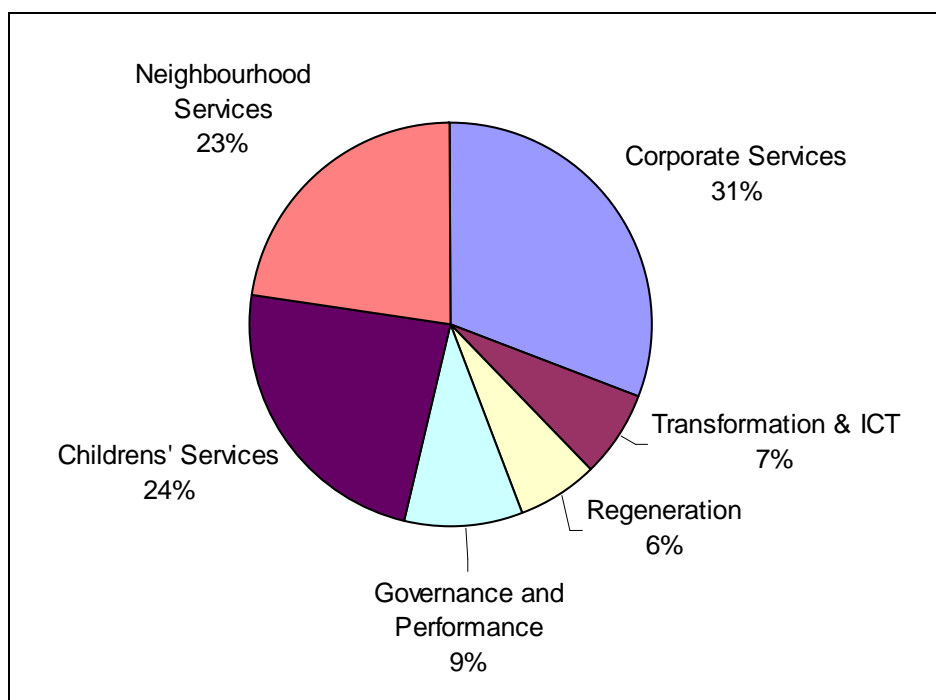
## **9. Recommendation Monitoring and Implementation**

- 9.1. Demonstrating the effective implementation of audit recommendations remains a challenge for the Council as the continued changes in structures, staffing and approach across all directorates means that specific recommendations can be superseded. There is also evidence of a lack of capacity in some areas to deliver planned solutions in the agreed timescales so the need to secure additional resources for implementation continues to be formally reflected in audit reports.
- 9.2. At 30 June 2009 there were 88 recommendations past their due date but not implemented. This compared to 124 such recommendations in May. At 15 September 2009 the number of overdue recommendations is 127.
- 9.3. Actions have been taken by management in response to the vast majority of these recommendations and many are partially complete but staffing, competing commitments and optimistic deadlines over the summer holiday period have impacted on the ability to demonstrate evidence of full implementation. This has been a particular issue in Childrens' Services and Neighbourhood Services where there have been delays in the full implementation of agreed actions by

the due date. Positively, a number of the ICT and finance issues referred to in the previous report have now been implemented.

- 9.4. Of the outstanding recommendations, five were classed as major priority (under the new reporting format) and 15 were classed as high priority. These issues relate to a number of different reports so the risk is not concentrated in one particular area or one directorate. Internal Audit is aware of the reasons for delays and will continue to work with management to ensure that appropriate actions are being taken to ensure risks are being managed or are referred back to Strategic Directors for formal acceptance.

**Diagram 1 - Outstanding Recommendations by Directorate / Area**



- 9.5. Overall, a high number of outstanding recommendations remain and progress since the previous report has not been as positive as hoped. Whilst the major priority issues have not been overdue for long issues have now been escalated to the Head of Internal Audit and Risk Management to ensure steps are being taken to address all of the recommendations made.

## 10. Conclusion

- 10.1. Members are requested to consider and comment on the Quarterly Internal Audit Assurance report for the period 1 April to 15 September 2009.