

## **Audit Committee**

### **Minutes of the meeting held on 20 March 2014**

#### **Present**

Councillor Flanagan – In the Chair  
Councillors Ali, Clayton, Hackett, Hitchen, Ollerhead and Watson  
Mr S Downs, Independent Co-opted Member

#### **Also Present**

John Farrar - Grant Thornton  
Sarah Howard – Grant Thornton

#### **Apologies**

Councillor Barrett

#### **AC/14/12 Minutes**

The minutes of the meeting on 23 January 2014 were submitted for approval. The City Treasurer referred to minute AC/14/02 and informed the Committee that the valuation of the Airport's assets has now been commissioned and should be completed in time for the annual accounts. The out come would be reported back to the committee at a later date.

#### **Decision**

To approve as a correct record the minutes of the meeting held on 23 January 2014 2013.

#### **AC/14/13 Grant Certification Workplan for Manchester City Council**

The Committee considered a report of the Council's external auditors, Grant Thornton, which provided details of their approach to grant certification, which is required for grant paying bodies such as the Council for claims of grant or subsidy and returns of financial information.

Grant Thornton undertakes this work on behalf of the Audit Commission. The report provided details of the Council's role in this process, the claims and returns that require certification, the work carried out by Grant Thornton to complete the certification process and the summary of expected claims and returns for the current financial year. The report also detailed the expected fees for carrying out this work, which was indicated at £25,200. The auditors reported that this figure would be £23,600, which was lower than initially expected.

#### **Decision**

To note the report.

#### **AC/14/14 Audit Committee Update for Manchester City Council**

The report of the Council's external auditors, Grant Thornton provided an update on progress in delivering their responsibilities as the Council's external audit. The report also included a summary of emerging national issues and challenges that could affect the Council in the future. Overall, all planned work was being delivered on time.

The report highlighted some Grant Thornton and Audit Commission documents summarising:

- Research into how councils have adapted to the financial challenges of the past few years.
- Help for building houses
- Arrangements for local authorities to ensure their financial arrangements are sustainable in the future
- The impact of welfare reform
- Reporting the costs of public health
- Accounting and financing the local government pension scheme in the wake of new regulations implementing changes to the scheme from April 2014.

The Committee had an in depth discussion about the changes to the Local Government Pension Scheme, how this would affect staff and councillors in the long term and whether the Council was equipped to deal with the changes. Members were concerned that the new regulations made the pension scheme complex and staff who would retire in several years time would not understand the impact of these changes. Pension scheme members were still able to optionally transfer their service to another scheme but the changes from final salary to career average, and additional options for payments and drawing pensions were complex. The City Treasurer assured members that the Greater Manchester scheme, which was administered by Tameside Council was well set up to deal with the additional administration and complexities of the regulations but the real impact of changes would not be known for several years.

In response to a query from a member, the external auditors confirmed that the changes to the responsibility for accurately reporting the costs of public health was a future risk but this would be picked up and assessed in the audit plan.

## **Decision**

To note the report.

## **AC/14/15 The Audit Plan for Manchester City Council**

A report of the Council's external auditors was considered which set out the challenges and opportunities facing the Council and how the external auditors would assess how the Council is responding to these challenges. Key challenges highlighted in the report were the budget settlement, localisation of business rates, valuation of Manchester Airport Holdings Limited assets and the introduction of the Better Care Fund.

The Committee expressed concerns about the affect of the business rates localisation which was introduced by the Government in April 2013. Under these

changes, local authorities would be able to keep half of the business rates collected, but they would also have to bear half the cost of any appeals against business rates that were not settled at the date of introduction of the new scheme. The City Treasurer explained the difficulties in estimating the potential cost of these appeals, as there was no information or guidance to base the estimates on. All local authorities were in a similar position. Although a number of appeals had been settled for this financial year, there were some outstanding claims for larger appeals so the costs were expected to carry on into the next financial year. The Council had set aside £10m from the reserves to cover the cost for next financial year, in addition to facing losses in the current year which would trigger the Government's safety net arrangements.

Although there was a high cost associated with business rate appeals, the Council would gain long term benefit from income raised as a result of business rate income growth. The City Treasurer explained that growth had been built into the income estimates for the future with income being raised from economic programmes such as the regeneration of St Peter's Square.

The City Treasurer clarified queries from members about the Brunswick Private Finance Initiative and the valuation of assets of Manchester Airport Holdings Limited.

### **Decision**

To note the report

### **AC/14/16 External Audit Recommendations Implementation report**

The Committee considered a report of the Head of Audit and Risk Management and the City Treasurer, which described the actions that have been taken in response to recommendations from external audit work. The purpose of the report was to provide assurance to Grant Thornton and the Committee that recommendations are being implemented.

The Head of Internal Audit and Risk Management introduced the report. He explained that out of the total of 9 recommendations that have been followed up since the last progress report in September 2013, 6 of these have been partially implemented with 3 outstanding. The outstanding recommendations were agreed as a result of the 'Objections to the Audit of Accounts 2011/12 summary report'. These were due to be completed within the next three months.

The Committee discussed the recommendations that were considered partially completed. Members were considerably concerned that the recommendation from an audit in 2009 to implement an ICT disaster recovery plan was not yet fully implemented. The Head of Internal Audit and Risk Management highlighted that substantial measures had been put in place to strengthen the resilience of ICT across the Council, and ICT systems were much stronger than they were at the time of the audit. Actions to implement a co-ordinated Disaster Recovery Plan for the whole ICT estate were still ongoing. The Council's external auditors confirmed that the report explained the progress that had been made since the recommendation

was made.

Members felt that the length of time it had taken to address this recommendation was unacceptable, particularly as the Council agreed it. The Committee noted that progress had been made but they did not accept the recommendation in the report that the Disaster Recovery Plan should be considered as part of the 2014/15 service business plan.

A member recalled the impact of the conficker virus that affected the Council's ICT systems in 2009 and highlighted that the Disaster Recovery Plan should be a priority. Members requested that the relevant senior officer and Executive Member be asked to attend a future meeting to respond to the Committee's concerns and to answer the following questions:

- Why has the recommendation not been implemented?
- What has been done in response to the recommendations to date?
- What interim measures have been taken to improve ICT disaster recovery?
- When will the ICT disaster recovery plan be in place?

### **Decision**

1. To note the contents of the External Audit Recommendations Monitoring report.
2. To ask the relevant senior officer and Executive Member to attend, and provide a report to a future meeting of the Committee to address the Committee's concerns about implementation of the ICT Disaster Recovery Plan.

### **AC/14/17 Cash Handling Audits – Directorates of Children and Commissioning, and Families Health and Wellbeing**

A report of the City Treasurer was submitted which provided the Committee with an update of the progress of the implementation of audit recommendations around handling cash in the Directorates of Children and Commissioning, and Families Health and Wellbeing. This followed on from a report presented to the Audit Committee in September 2013.

The Head of Internal Audit and Risk Management outlined some of the actions that had been taken including the recruitment of two additional staff to manage administration, increased reconciliation of accounts and clarity of roles and responsibilities. The Committee discussed the controls that were in place for imprest accounts, whether these were open to abuse and how potential cases of theft are identified. The Directorate Finance Lead assured members that increased frequency of accounts reconciliation highlights unusual activity and make it clear if an account has been subject to theft at an early stage so appropriate action can be taken.

The Committee discussed the recommendation from the Association of Public Authority Deputies that councils should charge for local authority appointeeships. Manchester does not currently charge but is investigating whether to introduce a nominal fee of £5 per week. Members queried whether this nominal fee would cover the cost of additional capacity or whether the cost of introducing the charge outweighed the income raised. It was estimated that this would raise approximately

£100,000 per annum which would fund the gap in service provision at the moment. Members also raised questions about whether this was a statutory service and which other local authorities in Greater Manchester charged for this service. The Officers agreed to provide an update back to the Committee at a later date.

A member asked for clarification to be provided in a future report on the financial management support offered for children in care homes in circumstances where the Council manages their money.

### **Decision**

1. To note the contents of the report.
2. To ask for further information to be provided to the Committee to respond to the questions raised by the Committee about charging for local authority appointeeships.

### **AC/14/18 Emergent Audit Plan**

The Committee considered a report of the City Treasurer and the Head of Internal Audit and Risk Management which provided details of the areas that have been identified for auditing in 2014/15 and how these areas were prioritised. The Committee was invited to comment on the report before the completed plan would be presented for approval in July 2014.

The report set out a diagram with the percentages of audit time that will be allocated to each directorate. Members queried the high percentage of time given to the Chief Executive's directorate as substantial change programmes around social care for adults and children were being implemented making those higher risk areas. The Head of Internal Audit and Risk Management advised that much of the audit work around Public Sector Reform had been consolidated into the time allocated to the Chief Executive directorate. He agreed to amend the diagram for the final version of the Plan to the Committee to accurately reflect the detail of time allocated.

The Committee supported the direction and priorities highlighted in the emergent plan. They discussed the resources within the internal audit team and the work done for external clients. The Head of Internal Audit clarified that external clients such as academy schools paid for this work, and that it funded resources and expertise within the team.

### **Decision**

To note the report, and to ask the Head of Internal Audit and Risk Management to provide a more detailed clear diagram breakdown of the audit time that will be allocated to each service area.

### **AC/14/19 Annual Review of the Effectiveness of Internal Audit**

The Committee considered a report of the City Treasurer which presented the findings of the annual review of the effectiveness of the Council's system of internal audit. This was completed in accordance with the requirements of the Accounts and

Audit Regulations 2011.

The report provided details of the current arrangements for internal audit, the resources, qualifications and experience within the team. There were a number of key performance measures in place to monitor the work carried out including the days spent on audit work as a percentage of available days and the number of reports issued within three months of the start of the audit.

Overall, the Committee were satisfied with the content of the report.

### **Decision**

To note the findings and conclusions of the 2013/14 review of the effectiveness of internal audit.

### **AC/14/20 Head of Internal Audit and Risk Management Annual Opinion**

A report was submitted which provided details of the Head of Internal Audit and Risk Management's opinion of the Council's systems of governance, risk management and internal control. This was required by the Public Sector Internal Audit Standards to inform the Committee's views on governance, risk and control framework within the Council.

The Head of Internal Audit and Risk Management provided substantial assurance that the Council's governance, risk and control framework is generally sound and operated reasonably consistently other than in respect of a small number of significant control issues identified. The opinion is based on delivery of planned internal audit work and reliance on some other assurance provision available in the period. Exceptions to this were three specific issues that were detailed in the report:

- Safeguarding casework compliance by Manchester Mental Health and Social Care Trust
- Information governance and security
- ICT resilience, security and capacity

Members were satisfied that the Head of Internal Audit and Risk Management opinion could provide substantial assurance, and they shared the concerns raised about ICT disaster recovery, information security and safeguarding casework.

The Committee noted that the Council would be audited by the Information Commissioner's Office in December, and they expressed interest in receiving more information about this later in the year.

### **Decision**

To accept the Head of Internal Audit and Risk Management Annual Opinion report