

## **Audit Committee**

### **Minutes of the meeting held on 9 June 2016**

#### **Present**

Councillor Russell (In the Chair)  
Councillors Ahmed Ali, Ollerhead, Siddiqi, A Simcock, Strong and Watson  
Independent co-opted members Dr D Barker

#### **Also Present**

Mark Heap – Grant Thornton  
John Farrar – Grant Thornton

Councillor Flanagan, Executive Member for Finance and Human Resources

#### **Apologies**

Councillors Barrett and Lanchbury  
Independent Co-opted member – S Downs

#### **AC/16/10 Committee Papers**

Members said that they had not been able to access some of the reports due to an error on the website and some of the papers not being sent. The Committee expressed the importance of members receiving the papers on time and for a clear work programme to be in place. The Committee agreed to defer items 8 and 10 on the agenda to give members adequate time to consider the information in the report.

#### **Decision**

To defer the Internal Audit Plan 2016/17 and the Grant Thornton report on the Manchester City Council 2015/16 Audit Plan.

#### **AC/16/11 Minutes**

The minutes on the meeting on 21 January 2016 were submitted. The minutes were agreed with one amendment to minute reference AC/16/07 Compliance and Licensing Activity to change the term “customers” to “service users”.

#### **Decision**

To agree the minutes on 21 January 2016 subject to the above amendment.

#### **AC/16/12 Annual Governance Statement**

The Committee considered a report of the City Treasurer which contained the draft 2015/16 Annual Governance Statement (AGS). This was produced following completion of the annual review of the Council’s governance arrangements and systems of internal control. The processes followed to produce the AGS were described in detail in the report, including improvements made and recommendations

from audit. It also described activity to promote better understanding and transparency in relation to governance arrangements, both within the Council and for the public.

The Performance Manager introduced the report and explained that the AGS was a statutory requirement and was submitted with the Council's Annual Accounts. The purpose of the document was to review the effectiveness of the governance arrangements of the Council. Last year's AGS identified a number of governance challenges in certain areas including ICT infrastructure, property and estates management, children's services. The AGS set out measures in place to strengthen these areas and the Committee would receive a further update in December. The Committee was invited to comment on the AGS and suggest amendments before the final version was submitted as part of the annual accounts.

The Committee discussed how governance arrangements were evidenced in the AGS. A member explained that an annual report on complaints that included the number of complaints, how they were handled and the outcomes would be a better demonstration of governance in action and asked whether there was a report that covered this. The Performance Manager said that a report on complaints performance did exist and the senior management team monitored complaints. He agreed to add more information about how complaints lead to service improvement within the AGS. Members agreed that the Committee should consider a complaints performance report at a future meeting, and that this should include information about key service level agreements in place in case any failure to meet these could cause additional complaints to come into the Council. The Executive Member agreed that each Executive Member should receive an overview of complaints performance for areas within their remit.

A member expressed concerns about the transparency of decision making in the Council. The Committee noted that it was easy to become complacent about transparency and it was important to remember the lessons learned from the youth council about how decision making in the Council could be more transparent. A member referred to the Register of Key Decisions that was one of the key documents used to inform the public about the big decisions that the Council made. A member commented that it was not a transparent document especially in relation to the timelines that decisions are taken and the terminology used to describe the decisions. A specific example of decisions referring to "financial gateways" and framework agreements" was given. The Chair of the Resources and Governance Scrutiny Committee agreed with these concerns and said that the Committee had already requested that this was reviewed as scrutiny committee members had raised similar concerns.

Members asked questions about the Ethical Governance Update and the Members Annual Assurance Statement. The Performance Manager said he would circulate the latest versions of these documents to members.

The Committee discussed ICT resilience and information security. The Head of Internal Audit and Risk Management described the progress that had been made in the past year for example becoming compliant with the public service network. He explained that the Council had limited capacity at the start but substantial progress

had been made and that the Chief Information Officer recognised that there is still a lot more to do but progress was continuing.

A member referred to the governance arrangements in the GM Combined Authority and how these were linked to Manchester. The Performance Manager explained that the GMCA produced their own AGS which explained this in more detail. He agreed to add more information about this to the Council's AGS.

### **Decision**

1. To note the draft version of the Council's 2015/16 Annual Governance Statement (AGS).
2. To request that a report on complaints performance is brought to a future meeting of the Committee.
3. To ask that the following amendments are made to the AGS
  - to include information that the Resources and Governance Scrutiny Committee is reviewing the key decisions process and how key decisions become more accessible.
  - to include links to the GM Combined Authority AGS.
  - To include more information about how corporate complaints are monitored
4. To ask the Performance Manager - Place and Core to circulate the latest versions of the Members Annual Assurance Statement and provide information about the Ethical Governance Update.

### **AC/16/13 Accounting Concepts and Policies, Critical Accounting Judgements, and Key Sources of Estimation Uncertainty**

The Committee considered a report of the City Treasurer, which explains the accounting concepts and policies, critical accounting judgements, and key sources of estimation uncertainty that will be used in preparing the 2015/16 accounts. It also provided members with information on how these differed to those from 2014/15.

The City Treasurer explained that the report set out the rules and policies by which the annual accounts will be prepared for example how we account for assets and pension liabilities. It also set out those calculations where the Council would have to apply some judgement and those where there was some level of uncertainty (e.g. business rate adjustments). It was good practice for these to be approved by the Audit Committee before the final accounts are agreed.

Officers clarified a number of points raised by members about the terminology, definitions and technical aspects of the report. Following a question from a member, they also agreed to circulate the report considered by the Finance scrutiny committee, which gave detail about heritage assets and how they were accounted for in the annual accounts.

The Committee discussed the Better Care Fund (BCF), how the different proportions of the fund from each organisation were accounted and how the Council could

assess value for money. Officers explained that the clinical commissioning group (CCG) contribution to the fund was monitored in the CCG accounts. Members were concerned about how they could access details of the CCG and how value for money was assessed. The Head of Internal Audit and Risk Management explained that the BCF would be reviewed by internal audit. While the Council could not compel the CCGs to provide the information asked for, the governance and accounting arrangements could be added to the scope of the planned audit. The outcome of this would be reported to the Audit Committee. The Committee also agreed to ask the Resources and Governance Scrutiny Committee to review the CCG contribution to the BCF and what services this contribution paid for.

### **Decision**

1. To approve the accounting concepts and policies that will be used in completing the 2015/16 annual accounts, note the critical accounting judgements made and key sources of estimation uncertainty.
2. To ask the Resources and Governance Scrutiny Committee to review the CCG contribution to the BCF and what services this contribution paid for.
3. To ask the Committee's Support Officer to circulate the scrutiny report on heritage assets to members of the Committee.

### **AC/16/14 Treasury Management Outturn Report**

A report of the City Treasurer was submitted, which described the treasury management activities of the Council 2015-16. The Council was required to have a treasury management strategy and report on activity twice a year.

The City Treasurer explained that the strategy defined the council's investments, cashflow and banking arrangements as well as the relationships with money markets. The Council's policy was to keep temporary borrowing to a minimum and retain high cash balances. The Council's outstanding debts, borrowing and lending arrangements and investment strategy were set out in detail in the report. In summary, the Council did not borrow any more money in the past year and it was also looking at ways to diversify arrangements for holding cash to reduce risk.

A member queried the temporary deposit annual rate of return at 6.15% which seemed high. Officers said that this was a typo and they would clarify the correct rate to members.

Officers clarified a number of points relating to the level of borrowing need set out in the report, the potential impact of Bank of England interest rates in the long and short term and the need to diversify the way in which the Council holds cash deposits. A member queried whether the possibility of Manchester housing associations being allowed to borrow money had been investigated. After officers confirmed that it hadn't been actively explored, the Committee agreed to recommend that the Council review the implications of lending money to housing associations in Manchester.

### **Decision**

1. To note the report
2. To ask officers to clarify the correct temporary deposit annual rate of return.
3. To ask officers to explore the potential for lending money to housing associations in Manchester.

### **AC/16/15 Annual Internal Audit Report 2015/16**

The Committee considered a report of the Head of Internal Audit and Risk Management. The Internal Audit section delivers an annual programme of audit work designed to raise standards of governance, risk management and internal control across the Council. The opinions and assurance from this programme culminate in the Annual Head of Internal Audit Annual Opinion which is reported to the Committee.

The Head of Internal Audit and Risk Management explained that the annual assurance opinion had reduced from substantial to moderate for 2014/15, and remained at this level for 2015/16. He highlighted that although the assurance level was the same, he was more confident that systems had improved. Progress had been made but not enough to justify a “substantial” assurance opinion. A number of positive steps had been taken but there still were a number of key challenges facing the Council such as the upcoming Ofsted inspection of children’s services. He summarised some of the areas in the reports where limited assurance opinions had been issued including children’s social care, capital programmes and ICT and progress to improve systems of internal control with each of these areas to date.

Following a question from a member, the Head of Internal Audit explained the progress that ICT had made over the past year. This included moving equipment to the Sharp Data Centre which was a more stable and secure environment for servers. There were more resilient arrangements in place and changes were being made to the core infrastructure that would result in more noticeable changes for ICT users. The Head of Internal Audit acknowledged that a substantial amount of progress has been made but there is still a lot of work to do.

The Executive Member supported the comments made about progress in particular the ability of the staff to manage improve ICT systems and manage recovery. He also clarified that a proposal to achieve disaster recovery would be in place by September and would be reported to scrutiny. The Committee agreed that substantial progress had been made and thanked the City Treasurer, the Executive Member and the Chief Information Officer for all the work that had been done and progress to date.

The Committee discussed the limited assurance given over compliance with arrangements to undertake, monitor and manage Disclosure and Barring Service checks for employees. The Executive Member for Finance and Human Resources clarified that there was a specific issue in one case where the Council did not have accurate records as someone changed their name by deed poll. The Head of Internal Audit and Risk Management explained that other issues had arisen regarding organisational management of DBS checks due to a change in personnel and

procedures so there had been a lack of clarity around counter signatories. The Head of Internal Audit and Risk Management explained that this needed further follow up work to clarify the latest position on progress and he would provide more detail to members in the next update.

The Committee expressed serious concerns about the limited assurance given to social case work in children and families. Members were particularly concerned given the length of time that this area had limited assurance, the capacity to improve and the pending Ofsted inspection. The Executive Member for Finance and Human Resources explained that there had been substantial investment in the infrastructure and staff and caseloads had reduced but it would take some time for the changes to be embedded. The Head of Internal Audit added that a number of positive changes to the governance and culture of the service have been made but these are not feeding through to the day-to-day service consistently. This was being closely monitored by senior management.

The Committee requested that further details on the reasons for limited assurance from audit, and the actions the Council was taking to address the recommendations from those audits was provided to a future meeting before the Ofsted inspection. The Committee discussed suitable timing for this and agreed to request it for the next meeting so they could consider the issues before the Ofsted Inspection. The Committee requested that the Strategic Directors and Executive Members are also asked to attend the meeting.

### **Decision**

1. To note the Head of Internal Audit and Risk Management's Annual Opinion and Internal Audit Annual Assurance report for 2015/16.
2. To request a report which explains the reasons for limited assurance on children and families social care internal audit inspections, and the actions the Council was taking to address the recommendations from those audits was provided to the July meeting of the Committee.

### **AC/16/16 Audit Committee Work Programme**

The Committee discussed the work programme for next meeting and agreed that the following items would be considered:

- The draft annual accounts and revised AGS
- Internal Audit Plan 2016/17
- The Audit Plan for Manchester City Council 2015/16 (Grant Thornton)
- Internal Audit recommendations on children and families casework

The Chair also advised that members would be provided with a copy of the work programme for future meetings and that pre meetings would be arranged for members at 9.30am on the morning of committee meetings.

The Committee noted that the annual counter fraud report would be deferred to the September meeting.