



Councillor Sarah Russell
Labour Member for Northenden Ward



**MANCHESTER
CITY COUNCIL**

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Members' Services, Room 108,
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30 June 2016

John Farrar
Senior Manager
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4 Hardman Square
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Your Ref: 001/PSA/M04885246

Dear John,

Manchester City Council Audit of Financial Statements for Year Ending 31 March 2016

Please see attached responses to your letter dated 27 April 2016.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'S Russell'.

Councillor Sarah Russell
As Chair of Manchester City Council Audit Committee

Fraud risk assessment

Auditor Question	Response	Response Group
<p>Has the Council assessed the risk of material misstatement in the financial statements (including the Group statements) due to fraud?</p>	<p>This issue is considered as part of the Council's risk assessment process but is not deemed to be a key risk. It is also considered as part of risk management arrangements within the Financial Management Service and as part of annual Internal Audit planning. There are a number of controls in place to mitigate this risk. Draft accounts are produced by the Council's Financial Management Team under current accounting conventions. The team comprises qualified, experienced accountants with substantial experience of working on the Council accounts. The team attend accounts briefings and training in the year to ensure they remain abreast of current issues and liaise actively with the external auditor over accounting concepts, conventions, estimates and judgements. The work of the team is overseen by the Chief Accountant, Heads of Finance and reviewed by the City Treasurer.</p> <p>The Treasurer's signed accounts are submitted to Audit Committee under their work programme for review and approval.</p> <p>In addition, the Council's Internal and External Audit support compliance with accounting requirements. In 2015/16 Internal Audit undertook audits of aspects of the Council's core financial systems and overall high levels of assurance were given over these systems which were considered to be effective and well-managed.</p>	<p>Assurance on Group is sought from City Treasurer and I am advised that the risk arising from the wider group is low.</p>
<p>What are the results of this process?</p>	<p>Based on the assessment of the City Treasurer and her teams I have no basis to consider that the risk of material misstatement in the financial statements due to fraud is other than low.</p>	<p>As above</p>
<p>What processes does the Council have in place to identify and respond to risks of fraud (including risks within Group components)?</p>	<p>The Council has a zero tolerance approach to fraud and corruption as prevention and detection helps protect financial assets, ensures legality and maintains a positive reputation for the Council. This promotes confidence with officers, Members, stakeholders and the public. Investigating potential fraud or corruption demonstrates transparency, openness and a willingness to address matters of wrongdoing.</p>	<p>Assurance on Group is sought from City Treasurer and I am advised that the arrangements at DML and MAHL appear reasonable and no issues arising from these she is aware of that would impact the accounts.</p>

Auditor Question	Response	Response Group
	<p>The Council's approach is set out in its published Anti-Fraud and Corruption Policy, Anti-Bribery Policy and Whistleblowing Policy. These policies are supported by detailed procedures and are published on the Council's website. The Whistleblowing Policy was updated in year and approved by Audit Committee, Standards Committee and Personnel Committee.</p> <p>Anti Fraud work is overseen by the City Treasurer and Head of Audit and Risk Management with a team in Internal Audit work responsible for governance and oversight of the delivery of the Council's Counter Fraud Strategy. This is delivered in conjunction with officers from across the Council, including HR, Finance, Legal Services, Trading Standards, Housing and Revenues/Benefits. The delivery of the strategy and counter fraud activity is reported in progress reports and in an annual report to Audit Committee.</p>	
<p>Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?</p>	<p>Fraud risks have been identified and reported to Audit Committee in the annual fraud report in July 2015 (and due to be reported again in July 2016). These do not indicate systemic issues across the Council or have a financial value that is material to the overall financial accounts.</p>	<p>As above</p>
<p>Are internal controls, including segregation of duties, in place and operating effectively across the Council and Group components?</p>	<p>Yes on the whole and where not this has been reported through Internal Audit work in relevant areas and actions agreed for improvement. No concerns of significance have been raised in any of the audits of core financial systems.</p> <p>This view is supported by the Head of Audit and Risk Management's 2015/16 annual opinion as reported to Audit Committee in June 2016.</p>	<p>Assurance on Group is sought from City Treasurer and I am advised that the arrangements at DML and MAHL appear reasonable and no internal control issues arising from these she is aware of that would impact the accounts.</p> <p>The Head of Audit and Risk Management has obtained high level assurance over the operation of internal controls at DML with the Director of Finance as part of the Council's partnership governance framework.</p>
<p>If not, where are the risk areas and what mitigating actions have been taken?</p>	<p>N/A</p>	<p>N/A</p>
<p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure</p>	<p>No as there are preventative, detective, monitoring and approval controls to present such override. Key risk areas would relate to journals and these are overseen and managed robustly by the Core Financial Accountancy team in Finance and reviewed as part of Internal</p>	<p>Assurance on Group is sought from City Treasurer and I am advised that the arrangements at DML and MAHL appear reasonable and whilst incentive to achieve targets etc is high the systems of governance and</p>

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to achieve financial targets)?	Audit work on the main accounting system.	control mean this is a low risk.
Are there any areas where there is a potential for misreporting?	There are preventative, detective, monitoring and approval controls to present override. Key risk areas would relate to journals and these are overseen and managed robustly by the Core Financial Accountancy team in Finance and reviewed as part of Internal Audit work on the main accounting system. The sheer complexity of the accounts remains a reporting risk but explanations of the accounts are provided by officers and the Audit Committee looks to officers and external audit to ensure the accounts comply with financial reporting standards.	Assurance on Group is sought from City Treasurer and I am advised that the arrangements at DML and MAHL appear reasonable and whilst Council, MAHL and Group accounts are complex, the systems of financial governance and control mean this is a low risk.
How does the Audit Committee exercise oversight over officer's processes for identifying and responding to risks of fraud at the Council and other Group components?	As above, and in review of policies and procedures (as updated by the Head of Audit and Risk Management) and regular reporting of actual and alleged fraud.	This is overseen by DML Board and MAHL Audit Committee
What arrangements are in place to report fraud issues and risks to the Audit Committee?	In progress reports (quarterly) and annual Internal Audit Fraud report (July 2015 and planned July 2016)	From FD and Chief Exec to DML Board and from Risk Assurance Director to MAHL Audit Committee
How does the Council communicate and encourage ethical behaviour amongst officers and partners?	Regarding the behaviour and conduct of the Council's Members and Officers, this is governed in the first instance by the Employee and Member Codes of Conduct, Council policies and any supporting procedures. The Council's anti-fraud and corruption policy states that the Council is committed to ensuring that the people of Manchester can have complete confidence that the affairs of the Council are conducted in accordance with the highest standards of probity and accountability. It therefore expects the highest possible standards of openness, honesty and accountability and will not tolerate malpractice or wrongdoing from Members or Officers. The policy also states that the Council requires compliance with appropriate legislation, Financial Regulations, standards of professional bodies and any other relevant standards, guidelines or instructions. This is communicated to contractors through contract terms and conditions.	DML Code for staff MAHL details as per their annual report and accounts.

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	<p>The Council's Monitoring Officer and Head of Legal Services; City Treasurer and Deputy; Deputy Chief Executives and Head of HR; and Head of Audit and Risk Management in particular provide support to officers and Members and also provide oversight of the governance arrangements and through this they reinforce the need for high standards of behaviour and conduct.</p>	
<p>How do you encourage officers to report their concerns about fraud? Have any significant issues been reported?</p>	<p>The Council's whistleblowing policy is published on the website and intranet with guidance and on line reporting for staff within the audit and risk management intranet pages. There is also a whistleblowing hotline and the audit team is accessible to managers and staff to raise potential issues or concerns. This confirms that staff are encouraged to raise concerns through management lines and ultimately to Internal Audit. No major issues reported that would indicate systemic issues in the systems of control.</p>	<p>DML Code for staff MAHL details as per their annual report and accounts.</p>
<p>Are you aware of any related party relationships or transactions that could give rise to risks of fraud?</p>	<p>Related party relationships and transactions could give rise to risks of fraud but these are assessed alongside wider fraud risks as part of the Council's counter fraud and financial management arrangements.</p>	<p>Not aware for Group</p>
<p>Are you aware of any whistleblowing tips or complaints?</p>	<p>Yes for whistleblowing and allegations of fraud as set out in the Annual Fraud Report (July 2015 and planned for September 2016). Complaints are often raised through Members and overseen through scrutiny committees and other meetings as required. There are no tips or complaints I consider impact on the financial statements or vfm opinions</p>	<p>Not aware for Group</p>
<p>Are you aware of any instances of actual, suspected or alleged, fraud, either within the Council or other Group components since 1 April 2015?</p>	<p>Summary details of actual, suspected or alleged fraud are referred to in the Head of Audit and Risk Management reports to Audit Committee, with more detail provided in the Annual Fraud report (July 2015 and planned for September 2016).</p> <p>I have been assured by the Head of Audit and Risk Management that these do not indicate systemic issues across the Council and that none of these have a financial value that is material to the overall financial accounts.</p>	<p>Not aware for Group</p>
<p>What are your views on the risks of fraud within other Group components?</p>	<p>N/A</p>	<p>As above I consider them to be low based on the small amount of information available to me,</p>

Auditor Question	Response	Response Group
		but am assured of the same by the City Treasurer and Head of Audit and Risk Management

Law and regulation

Auditor Question	MCC Response	Group Response
<p>What arrangements does the Council have in place to prevent and detect non-compliance with laws and regulations?</p>	<p>The Anti-Fraud and Corruption Policy sets a clear position on the requirement for compliance with appropriate legislation, Financial Regulations, standards of professional bodies and any other relevant standards, guidelines or instructions.</p> <p>The City Solicitor (Monitoring Officer) and City Treasurer support the Council in this by contributing to ensuring that the Council and its supporting bodies are administered efficiently and in accordance with statutes and constitutional rules. This includes legal and democratic services officers who maintain a continuous review of constitutional, governance and administration arrangements with regard to the Council's operations. The City Solicitor is also supported by a professionally accredited service who cover all aspects of law and regulation including litigation, employment, commercial, property and constitutional law and utilise external legal counsel when appropriate to advise on complex matters.</p> <p>The need to ensure compliance with relevant laws and regulations is also considered as part of Internal Audit's annual planning process. This is based on the Council's assessment of risk as described in its risk register and Internal Audit's own view, with managers, of other risk areas.</p> <p>The Annual Governance Statement describes managers understanding of the key systems and processes comprising the governance framework and provides their commentary on how they work in practice, including identifying any need for improvement.</p>	<p>N/A</p>
<p>How do officers gain assurance that all relevant laws and regulations have been complied with?</p>	<p>The Annual Governance Statement and business planning preparation process includes assertions and confirmations from Heads of Service and Strategic Directorates that all relevant laws and regulations have been complied with. There are a wide range of mechanisms including the Constitution, financial regulations and Council policies and procedures, as well as reports to Executive and Council that include consideration of legal implications to ensure that decisions comply with laws and regulations.</p>	<p>Not aware for Group</p>
<p>How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>Through reports from Internal Audit and in respect of financial governance reports from the Head of Finance and City Treasurer. The Committee also receives the draft and financial Annual Governance Statement that</p>	<p>Not aware for Group</p>

Auditor Question	MCC Response	Group Response
	provides details of how assurance is obtained to ensure all relevant laws and regulations have been complied with.	
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2015?	<p>I am aware that given the breadth of the legal duties of the Council and the breadth of legislation to which the Council is subject, there will be areas of suspected or actual non compliance with areas of law and regulation, but there are no areas of significant non compliance with laws and regulations of which I am aware since 1 April 2015.</p> <p>There are no areas of significant non compliance with laws and regulations of which I am aware which impact on the 2015/16 financial statements.</p>	Not aware for Group other than through feedback from the Treasurer
What arrangements does the Council have in place to identify, evaluate and account for litigation or claims?	<p>The City Solicitor as Monitoring Officer oversees all claims lodged that could result in claims or litigation and an assessment of financial risks of claims is maintained by the Legal Services Team in conjunction with the Financial Accountancy Team in the Council's Financial Management Division. These teams also work closely with the Corporate Insurance and Claims team as well as highways and other areas where there are liability claims that could arise. This whole process informs the annual assessment of reserves and provisions.</p> <p>These teams also evaluate the risks of potential claims through a range of mechanisms including monitoring of case law developments, monitoring of accident reports and review of serious incidents, all of which might result in litigation or claims.</p>	Not aware for Group other than through feedback from the Treasurer
Is there any actual or potential litigation or claims that would affect the financial statements?	No. Provisions are made for all known claims but reserves are also provided in anticipation of future claims. These include provisions and reserves for areas such as business rate appeals, bad debts and claims lodged and anticipated.	Not aware for Group
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance?	As External Audit are aware, Ofsted have reported adversely on Childrens Services but I have been assured that there are no other regulatory reports that indicate levels of significant non compliance with laws and regulations.	Not aware for Group