

Audit Committee

Minutes of the meeting held on 6 October 2016

Present

Councillor Russell - In the Chair
Councillors Ollerhead, Lanchbury, Siddiqi, A. Simcock and Watson

Independent co-opted members Dr D Barker, Mr S Downs

Apologies: Councillor Ahmed Ali.

Also Present

John Farrar, Grant Thornton

Councillor Flanagan, Executive Member for Finance and Human Resources

AC/16/33 Minutes

The minutes on the meeting on 15 September 2016 were submitted and agreed as a correct record.

Decision

To agree that the amended minutes of the meeting on 15 September 2016 were a correct record.

AC/16/34 Internal Audit Quarter 2 Progress Report

The Head of Audit and Risk Management presented the report. 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. This work culminates in the Annual Head of Internal Audit Annual Opinion and an Annual Assurance Report. This interim report provided a summary on the work undertaken and audit opinions issued in the period April to September 2016.

The Head of Audit and Risk Management also told the Committee that there had been a recent re-inspection of Children's Services by Ofsted, but that no result was available at present. The Committee noted the improvement in several areas of assurance and queried why there were areas where the improvements had not been as marked. The Committee were told that the improvement programme was proceeding as planned, with resources being allocated where they were most needed, but that it would be unrealistic to expect immediate improvement across all areas of the service.

Members were also told that while action is being taken, this is not always fed

through consistently across the whole service and that while there is no immediate prospect of a higher level assurance being given, the service is working hard to provide the resources and support to make sure that action and improvement will be more consistent in the future.

The Committee accepted that planned, sustainable improvement over a longer period of time was preferable to rapid improvements that could not be maintained in the longer term.

The Committee also discussed the limited assurance given to the Manchester Learning Disability Partnership (MLDP) after the Care Quality Commission ("CQC") inspection in March 2016 which rated MLDP as 'inadequate' overall. Members queried whether this rating should have been foreseen, and the Head of Audit and Risk Management agreed to review and feedback at a later date. However, Internal Audit took assurance from attending Supported Accommodation Improvement Board meetings over the response to the inspection and confirmed that an Improvement Plan had identified tasks and timescales, allocated responsibility and RAG rated progress. A risk register had been agreed and while further work was needed in areas such as client file audits, supporting assessments and reports, Internal Audit confirmed that they were satisfied planned action is progressing. This was further evidenced from a CQC inspection of MLDP South in the summer, which was rated 'requires improvement' with no warning notice issued. In addition a new Statement of Purpose document had been shared with CQC; 21 apprentices had been recruited; an ICT investment bid supported transformation and a quality assurance framework was being put in place.

The Committee stated that they wanted more detail about areas of limited assurance than could be provided in a general update report. Members also wanted to know whether management teams in areas where limited assurance was given, were being adequately supported and trained to recognise and address areas of concern at an early stage so that any further problems could be dealt with before they became too difficult to deal with effectively. The Committee decided that where a limited or not assurance opinion was given they wanted officers from individual teams and directorates to address them in person, rather than receive information as part of a general update report. If individual officers attended the Committee, Members were of the opinion that they would receive more relevant information than if it was given to them second hand.

The Committee also asked whether the number of limited assurance opinions was increasing. The Head of Internal Audit and Risk Management explained that Internal Audit were actively targeting resources in areas where they expect to uncover problems, so the number of limited assurance opinions was not a surprise. Members requested further information about whether officers were paying attention to recommendations to improve assurance, and acting on them. The Committee also asked for information about whether there were tangible consequences for Directors with areas of limited assurance, and if so what they were.

The Committee acknowledged that the language used when issuing assurance opinions was cautious, which can make understanding the underlying issues more challenging.

Decision

1. To note the report.
2. To request individual reports about areas of limited assurance from the Directors and Executive Members responsible. These reports should be presented to the Committee by the Directors and Executive Members responsible.
3. To request a trend analysis of areas of concern and the responses to recommendations to increase assurance.

AC/16/35 Highways Improvement Report

The Interim Director of Highways presented the report. This report responded to comments made in an Internal Audit Report into Highways and Manchester Contracts that investigated Highways Reactive Maintenance processes and procedures.

The Audit Report, which was commissioned by Highways to assist them in their transformation of the service, identified a series of problems in processes and management systems across the Reactive Maintenance and Repair Service and recommended that significant changes are required to ensure the ongoing effective delivery and management of this part of the service

The Highways department supported the findings of the reports and the work of the Audit Team. They recognised the issues raised and the challenges faced and identified a number of actions, recommendations and other measures aimed at improving the management accountability and delivery of the service. A number of changes have already been made to ensure that sub-contractors works are better managed and audited and further changes are underway.

It had previously been recognised that strong and effective leadership was required to deliver the necessary improvements to the Highway Service. To achieve this all Highways Services (including Manchester Contracts) were brought under the common management of the new Director of Highways, within the Corporate Core, and reporting directly to the Chief Executive as detailed in a report to Personnel Committee on 10 May 2016. The previous management arrangements operated as a client and commissioning role, and whilst they successfully delivered programmes of work, it was considered that the focus must be to provide the best possible service with an agreed budget and resource allocation to respond to immediate, short term and long term asset management priorities.

An updated report was presented to the Personnel Committee on 28 July (minute reference PE/16/19) which built on the recommendations of the previous report and set out the future strategic direction of the Highways Directorate. The new structure incorporated all asset management functions for the first time, meaning the inspection and delivery of reactive maintenance will be carried out within the same team in the future. This will create a closer working relationship between the Highway Inspectors and Manchester Contracts (and their sub-contractors) and will help to

ensure better value for money, greater accountability, more customer focus and that maintenance targets are delivered in line with agreed timescales.

Additionally and in response to the Audit findings a Management Action Plan was developed aimed at addressing the issues identified. Some of the actions identified in the Management Action Plan are already in place, and the others are currently being developed through the new Asset Management Board.

The Management Action Plan was provided in Appendix B, together with progress to date and timescales for implementation of other recommendations.

Key recommendations from the Management Action Plan that have already been introduced are:

- Greater scrutiny of sub-contractor invoices;
- Rejection of any invoices where "growth" is claimed unless previously agreed by the inspector;
- Order works in a more cost efficient manner;
- Highways inspectors spray areas for repair so they be easily identified by the works gangs;
- Manchester Contracts staff checking a sample of sub-contractors works and an additional Clerk of Works and Quantity Surveyor have been appointed;
- Neighbourhood Managers carry out checks on a sample of completed works and monitor on a recently developed spreadsheet;
- The sub-contractor can only claim for "enhanced" Traffic Management with prior agreement of Manchester Contracts;
- Neighbourhood Managers are performing post-inspection checks of the information recorded by the Highways Inspectors;
- The sub-contractor and Manchester Contracts are taking a photograph immediately before and after each repair so the works can be checked before any payment is made. This means that all works can be checked rather than just a random sample.

The Committee asked whether the recommendations of a previous Task and Finish Group had been implemented and were assured that the recommendations had formed part of the Internal Audit investigation and the subsequent Management Action Plan.

The Interim Director of Highways also confirmed that much more attention was given to the activities of contractors and sub-contractors, including an ultimate recourse to end contracts when this was found to be necessary. This also included regular inspections of a sample of repairs is being carried out by managers in both departments to ensure what is being claimed has been completed and the quality is to an agreed standard. Previously limited post-works checks were carried out by Manchester City Council. All defects not repaired to the agreed standard are now returned to the contractor (or their sub-contractor) to repair which has reduced the financial consequences to the Council for failures in the SLA's and placed these consequences back with the contractors and sub-contractors.

Members were told that Symology is the software used by Highway Inspectors to

provide details of their inspection routes, to log defects and raise works tickets to repair defects. A number of improvements have been made with immediate effect to improve the quality of information provided:

Highways inspectors have been given additional training regarding the logging of defects; Managers are carrying out post-inspection checks to ensure the inspections provide sufficient detail to allow the works to be carried out accurately; Defects are being marked on the carriageway / footway so they can be easily identified.

Whilst these measures will provide some short-term improvements, some more significant improvements are required to develop Symology so that it can provide a more robust means of monitoring and managing the whole defect process. This will need to be done in collaboration with Symology over the next 12-18 months. In addition it was confirmed that there are now additional staff in place and a training programme has been implemented to ensure that policies and processes are used to their best advantage.

The Head of Audit and Risk Management also told the Committee that while Internal Audit had been aware that there were problems with the service before their inspection, the scale of the problems that they found was greater than had been expected. It was also confirmed that no assurance could be given with regard to gullies as these had not formed part of the comprehensive audit.

The Committee were not satisfied that the whole department had been looked at with the level of detail that was required to fully understand the problems that existed, particularly with regard to problems with blocked gullies. Members also commented that there needed to be an investigation specifically into the tipping of building waste into gullies, as in their personal experience many blocked gullies could be found in areas where extensive building work had taken place.

The Committee also commented that the infrastructure needed a comprehensive programme of investment, and were assured that there was in fact a 10 year strategic investment proposal going through the Capital Improvement Process along with a transformation plan running across the service that was in the process of being implemented in conjunction with the recommendation from the Internal Audit inspection.

Decision

1. To note the report.
2. To request a further report in 2017 on the implementation of Internal Audit recommendations.
3. To request that a report explaining the Internal Audit Report into Highways and Manchester Contracts that investigated Highways Reactive Maintenance processes and procedures is sent to the Neighbourhoods and Environment Scrutiny Committee.

AC/16/36 ICT Disaster Recovery Planning

The report of the Chief Information Officer was presented to the Committee. ICT provided an update to the Finance Scrutiny Committee in June 2016. In that report ICT committed to:

- Selecting a hosting platform – to consider the various industry standard data centre models and provide a recommendation by December 2016.
- Data centre improvements - to complete any short term actions required to improve the resilience of current infrastructure and applications by December 2016.
- Renegotiate the Telephony and Wide Area Network (WAN) contracts to deliver a value for money, fully managed service as well as an upgrade of the existing aged estate. (November 2016 for contract change and 2017/2018 for upgrade of Telephony/Contact Centre Estate).
- Review and design the current network architecture to provide a fit for purpose network. This is an enabler project for the Collaboration implementation (March 2017 for initial works to key sites).

This report gave an interim update on the work undertaken by ICT so far. ICT will also provide a greater level of detail on Disaster Recovery to the December 2016 Resources and Governance Scrutiny Committee.

The Committee were told that good progress had been made in the Disaster Recovery Programme, which included a quality assurance programme and business continuity programme. Members acknowledged that there have been significant improvements and progress in the ICT service overall. The Committee also acknowledged that the ICT infrastructure was also now on a par with comparable local authorities, which was a significant improvement from the very low functionality which was the case at the start of the process.

The Committee were told that the improvement was due to the recruitment of new staff and development of the existing workforce, all of whom had been key to identifying risk and then ensuring that systems and resources were put in place to mitigate risks and ensure that there was steady and sustainable improvement and progress.

Decision

1. To note the report.
2. To request a further update report in 6 months' time.

AC/16/37 Annual Complaints Report

This matter was deferred to the next meeting of the Audit Committee on 1 December 2016.

AC/16/38 Process for Appointment of External Auditor

The Head of Audit and Risk Management presented the report to the Committee. The Local Audit and Accountability Act 2014 (the Act) at Section 7 states that a “relevant authority must appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding financial year.” Current auditor contracts have been extended for 12 months, therefore for the City Council the appointment of an auditor must be completed by 31 December 2017 for the audit year 2018/19.

The Committee were told that there were three options open to the Council under the Act and that new appointments for auditors needed to be made by December 2017 regardless of which option is chosen. The options available to the Council are as follows.

- Option 1: Make a stand-alone appointment
- Option 2: Local joint procurement arrangements
- Option 3: Opt-in to a sector led body

The Committee discussed the advantages and disadvantages of each option, and were told The City Treasurer and counterparts in the other nine GM Councils, GMCA, TfGM, GMPCC, GMP, GMFRS and GM Waste are supportive of the proposal for a GM level procurement.

This option allows for economies of scale, given the 2015/16 combined external audit and grant certification fees of these bodies was £1.8m, whilst also enabling a single firm to be able to discharge external audit functions across the City Council, GMCA, GM Mayor, GM Chief Constable and the districts. This will allow the auditor to take a more strategic approach and should facilitate greater added value in supporting the audited bodies on complex accounting and audit matters.

A joint procurement is also likely to minimise the time and cost of separate procurements across GM and will also aid the identification and appointment of an appropriate, effective Auditor Panel which it is proposed comprises elected members representing the audited bodies as well as a majority of independent members and independent chair secured following an open process of advertisement and recruitment.

This would also provide more scope for the Council's Ethical Procurement Policy to form part of the negotiation process so that value for money would be considered in conjunction with the social benefit that would be given back by the eventual contractor. The Committee agreed that it would be mutually beneficial to work with other local authorities to get the best collective deal for each authority.

The Committee were told that more information would be available in December after all of the other Audit Committees in districts and other GM partners had met and discussed this issue. The Committee supported the City Treasurer in proceeding with the process to commence a joint procurement programme, but wanted more

detailed information about how the process would work before making a final decision.

Decision

1. To note the report.
2. To request more information about the preferred option to ensure that there is adequate social value from the eventual contract.

[Mark Heap, Grant Thornton declared an interest and withdrew from the meeting during consideration of this item.]

AC/16/39 Work Programme

The Committee noted the upcoming work included on the work programme.

Decision

To note the work programme.