

## **Audit Committee**

### **Minutes of the meeting held on 27 June 2017**

#### **Present:**

Councillor Russell - In the Chair  
Councillors Ahmed Ali, Andrews, A. Simcock and Watson.

Independent Co-opted members Dr D Barker and Mr S Downs.

Councillor Flanagan, Executive Member for Finance and Human Resources  
Councillor Stogia, Executive Member for Environment

#### **Also Present:**

John Farrar, Grant Thornton  
Mark Heap, Grant Thornton  
Stephen Nixon, Grant Thornton

**Apologies:** Councillors Lanchbury and Ollerhead.

#### **AC/17/35 Minutes**

#### **Decisions**

1. To defer the consideration of minutes of the previous meeting as they were not available.

#### **AC/17/36 Annual Accounts 2016/17**

The City Treasurer presented the report and the Annual Accounts for 2016/17.

The Committee asked whether the objection to the Lender Option Borrower Option (LOBO) portfolio associated with the 2015/16 Annual Accounts would also apply to, or have an impact on, the 2016/17 Annual Accounts. Grant Thornton confirmed that the objection was specific to the 2015/16 Annual Accounts, but that theoretically if a re-statement of Accounts was needed for 2015/16 then this could have a knock on effect on the 2016/17 Accounts.

In response to a question from a Committee member who asked whether the reserves could be separately listed, the City Treasurer also confirmed that details of all of the reserves were contained in the report and the notes that were attached. The City Treasurer also confirmed that any typographic errors would be corrected before the final Accounts would be made available to the general public.

The Committee noted that there was an increase in the number of staff receiving remuneration above £75,000, and noted that this was as a result of a recent independent evaluation exercise which included a review of pay and conditions for senior members of staff across the organisation.

The Committee asked for clarification as to the nature of some of the organisations listed as having a financial connection to the Council, such as Destination Manchester Ltd/Manchester Central Ltd and Soccer–Ex Global Convention, as their inclusion in the Accounts seemed slightly incongruous.

The City Treasurer confirmed that there was a long standing historic arrangement with Destination Manchester Ltd/Manchester Central Ltd, in relation to the long term refurbishment of the Town Hall Extension and Central Library complex, and that the funds held on behalf of Soccer-Ex related to a specific soccer event that had been held in the City and then nationally.

The Committee also noted an increase in funds owed from Government Departments, and were assured that this was a technical increase only, and that in reality there was no issue in receiving funds owed from this source.

The Committee noted that agency fees for the Senior Management team had decreased significantly, but were still a substantial amount.

The Committee asked why there had been a significant overspend in the Highways Maintenance budget, given that the Audit Committee had current concerns about the assurance level of the Highways Maintenance programme as a whole. Officers confirmed that there had been an overspend and that investigations were ongoing as to why this had happened, and the management of this process as a whole. Officers also confirmed that there was a degree of notional accounting in these figures, which could lead to apparent inconsistencies.

The Committee expressed concern that the Council may not be getting the best value for money in this area of business, and agreed to discuss this issue in more detail at the point in the meeting where the Highways Update report was presented.

## **Decision**

To note the report.

### **AC/17/37 Capital Outturn Report 2016/17.**

The City Treasurer presented the report which provided an update of the end of your position with regard to the Council's Capital Expenditure, and the activity that the Council carry out on behalf of the Combined Authority.

The Committee questioned why there was a significant underspend in 2 distinct areas, which were Children's Services and the Schools Capital Programme. The Committee asked whether this was as a result of an inefficient procurement processes, or if there was another reason that could be identified.

The City Treasurer confirmed that there was a historic pattern of underspend in the Capital Programme, most likely due to an over-estimation of what could be achieved in the financial year and budgeting for this over-estimation. The City Treasurer also confirmed that work was being undertaken to improve the Capital Programme processes and procedures to address this issue and to remove as far as possible the

over-estimation of the Capital Programme work that could be completed.

Officers also confirmed that the specific areas of concern were still in the design phase of the Capital planned projects, and that once the projects moved into the construction phase, this would adequately address any areas of current underspend.

Officers also assured the Committee that no Capital funds were as a result of external borrowing, so any underspend or slippage in timescales of projects would not attract any payment of interest by the Council. Borrowing was solely funded by internal means from the cash flow of the Council and not by external means, because interest rates on holding cash were currently so poor that this made financial sense. There has also been a change in the planning of the Capital Programme to move towards a 5 year plan rather than an annual plan, which has had an impact on the figures for this financial year. The Executive Member for Finance and Human Resources also confirmed that as a result, the figures should show a much more stable picture next year as the process begins to equalise.

The Committee also identified an underspend in the ICT Capital programme, which concerned them given that the current ICT infrastructure was not as efficient as they would have wanted. The Executive Member for Finance and Human Resources explained that the apparent underspend was as a result of the timing of the implementation of the ICT Capital Programme, and that this would be rectified in due course.

The committee also expressed concern that a large part of the ICT Capital Budget was being “re-profiled” and asked for more information about what the original spend and proposals had been, and what the new spend and proposals were, and how the 2 positions were different. The Committee also asked that the governance arrangements for the “re-profiling” process be explained to them in more detail.

The Executive Member for Finance and Human Resources said that he would provide a report to the Committee once the new proposals had been clarified and scrutinised by the relevant Scrutiny Committee. The Audit Committee noted that they sought assurance that the processes and procedures were being managed by a suitable governance regime.

## **Decision**

1. To note the report.
2. To receive an update in the course of the normal reporting by internal audit to the Committee, on the governance of the ICT Capital Programme as part of the Capital Strategy monitoring to be carried out by Internal Audit.

## **AC/17/38 Revenue Outturn Report 2016/17.**

The City Treasurer presented the report which set out the revenue Account position as at the end of the year, as well as giving information about the Housing Revenue Account.

The Committee noted that Children's Services and Adult's Services had shown a significant overspend in terms of the revenue budget, and asked if the budget for the next year would be changed to reflect this. In addition, the Committee asked if the areas of underspend, for example in the Corporate Core would be used to offset the areas of overspend on an ongoing basis.

The City Treasurer confirmed that in particular, the overspend in the Adults Social Care budget and the pressures on this area of business was recognised at a national level and had impacted across the UK as a whole rather than being restricted to Manchester. She also confirmed that additional government grant funding was being provided to address this. She also confirmed that Manchester would receive an extra £12.9 million next year to assist with this.

With regard to the underspend in the Corporate Core, the City Treasurer explained that a large part of this was as a result of holding vacancies to produce savings. All aspects have been included in the budget process for next year.

The Committee questioned whether the vacant posts that were being held would eventually be filled or deleted. Officers explained that some will be filled but that a number will be deleted once Directorate and Departmental restructures were finalised. The Committee commented that as Elected Members they had received feedback from constituents that it was increasingly difficult for members of the public to speak to officers of the Council in person, and speculated that this might be as a result of less staff being available. The Committee also asked whether any evaluation had been made the impact of not filling vacancies was having both on service delivery and existing staff.

Officers confirmed that there was currently an ongoing review of the HR and recruitment process to establish whether the organisation as a whole had the right staff in the right posts, which would include evaluating the effect on existing staff of the vacancies that were being held.

The Committee asked why there was an overspend in the provision of agency staff in Adult Social Care, when the prediction had been for a significant reduction in this cost over the year. The Committee asked at what level is this scrutinised, whether it is at a Directorate Level or at a more senior level.

The Executive Member for Finance and Human Resources explained that each Directorate is responsible for its own spend, but that there was detailed work being undertaken to look at the spend on agency staff across the whole organisation and whether this is indicative of a wider problem relating to a lack of resources in a particular area of business or for another reason such as long term sickness cover. He also confirmed that a report will be submitted to the HR sub-group once the results of this work are available. The Committee requested that this report includes information on the impact of a failure to recruit replacement staff on existing staff and the provision of services.

## **Decision**

1. To note the report.

2. To recommend that the report on agency staff spend which will go to the HR sub-group include information on the costs of senior interim staff; impact of a failure and delays to recruitment of replacement staff on existing staff and the provision of services.

### **AC/17/39 Highways Improvement – Update Report.**

This report was presented by the Head of Citywide Highways on behalf of the Strategic Director, Highways, Transport and Engineering. The report provided details of areas for improvement identified in an Internal Audit Follow-Up Report in respect of highways maintenance and repairs; and the actions being taken by management to address these.

The Committee expressed disappointment in strong terms, that the Strategic Director, Highways, Transport and Engineering had not attended the Committee as requested, and further expressed disappointment with the lack of detail and clarity on what action had been taken since the last report had been presented in October 2016.

The Committee asked why there was no information in the report about issues with gully cleaning and maintenance, which they had raised previously, and would have expected to be updated in this report. Officers explained that additional funding had been sourced to provide more resources in this area of the business, and that historically this was a service that had been under resourced. The Directorate were at the point of undertaking a large £1million project to source additional gully machines, and that this would enable the introduction of an operation over the next 18 months which mean that every gully would be visited and cleaned where necessary. Gullies would also be dip tested, and the data gathered from this exercise would be used to introduce a cyclical gully cleaning programme so that resources were targeted in the most effective way possible. Officers also said that they would undertake a capital programme of gully repairs which would contribute to improving the situation.

The Committee noted that the Executive Member responsible for this issue was keen to ensure that associated contract work be prioritised for contractors within the City, and welcomed this decision. Officers confirmed that the tender and contracting process would consider value for money as well as contractors who would contribute back to the City in the form of local employment and good quality apprenticeships.

The Committee also recommended that a 5 year strategic plan be investigated as they noted that the City was growing rapidly and this needs to be considered as part of the infrastructure planning.

The Executive Member for Environment confirmed that there was a robust process in place that would ensure that they got the best value for money when contracts were awarded, in all the areas of the business that officers had highlighted. In addition, the Executive Member confirmed that part of the consideration of contractors during the tender process would include an assessment of how the carbon footprint of the associated works could be reduced as much as possible.

The Executive Member confirmed that this was historically a disparate Department, but that good progress had been made to bring all members of the team together with the result that all areas of the business are operating much more effectively. She anticipated that this would continue to improve over the coming weeks and months. There has also been a comprehensive review of the department and its governance and oversight and changes have been made to the senior management structure where required. The Executive Member also agreed that the Committee should receive a further report with comparative facts, figures and statistics to show what progress has been made since the no assurance rating was provided.

The Committee asked for clarification as to how the governance and oversight of the Highways Budget was being progressed, and the City Treasurer and the Executive Member for Finance and Human Resources both confirmed that this was being closely monitored and would be reported to Executive later in the year.

### **Decision**

1. To note the report
2. To request a further report to be presented at the August meeting of the Audit Committee by the Strategic Director Highways, Transport and Engineering in person, containing comparative facts, figures and statistics, measurable targets and delivery dates including but not limited to the following areas.
  - Governance, the Strategic Management Board and the Chief Executive's oversight;
    - a. HR, including the management strategy for the directorate; senior recruitment; and development of internal delivery teams;
  - Finance, including but not limited to the repairs and maintenance budget, areas of overspend and plans for the expanded capital budget;
    - a. Progress against the original internal audit recommendations and those received in the subsequent monitoring report to include but not limited to contracting and inspection processes and gullies;
3. To request a separate report from Internal Audit that reviews the recommendations made at the point of the no assurance opinion, and the progress made in the implementation of those recommendations and those subsequently made at the repeat visit.

### **AC/17/40 Internal Audit Plan 2017/18**

The Head of Internal Audit and Risk Management presented the report, which had been deferred from the previous meeting of the Audit Committee on 23 June 2017.

Standards for Internal Audit in local government are set out in the Public Sector Internal Audit Standards (PSIAS) and a Local Government Application Note introduced by the Chartered Institute for Public Finance and Accountancy. The PSIAS confirm that the Council should periodically prepare risk based plan of Internal Audit activity designed to support an annual opinion on the effectiveness of the systems of governance, risk management and internal control and is informed by the audit strategy, consultation with stakeholders and a dynamic assessment of risks.

The PSIAS emphasises the need for a strong working relationship between Internal Audit and the Audit Committee and that this should include arrangements for Audit Committee to “review and assess the annual internal audit work plan.

The Head of Internal Audit and Risk Management also confirmed that while some areas of business were not on the Plan, this was not because Internal Audit were not engaging with the business, but because there was no plan to undertake a full Audit. An example of this is the Voluntary Sector Grants Programme, where Internal Audit are engaged and provide guidance and support, but are not intending to undertake an Audit.

The Head of Internal Audit and Risk Management also clarified for the Committee the different types of Audit activity and how the outcomes are reported through to the Audit Committee, whether by direct reporting or by inclusion in the formation of the the Head of Internal Audit and Risk Management Opinion in his Annual Report.

The Committee queried whether the work being undertaken on external Client activity was having a detrimental impact on how effectively internal systems and processes are monitored and governed. The Head of Internal Audit and Risk Management confirmed that he is happy with the level of external Client work, and is satisfied that all internal responsibilities will be adequately resourced.

### **Decision**

1. To note the report
2. To approve the Plan.

### **AC/17/41 Work Programme and Recommendations Monitor**

The Committee noted that this will be updated for the next Audit Committee.