

Audit Committee

Minutes of the meeting held on 31 August 2017

Present:

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

Independent Co-opted members Mr S Downs.

Councillor Stogia, Executive Member for Environment

Also Present:

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

Apologies: Councillor Andrews and Dr D Barker.

AC/17/42 Minutes

Decisions

To agree that the minutes of the meetings held on 23 June 2017 and 27 June 2017 are a correct record.

AC/17/43 Annual Accounts 2016/17 and Letter of Representation

The Committee received the report of the City Treasurer which summarised the amendments that have been made to the Annual Accounts 2016/17 following their audit by the Council's External Auditors, Grant Thornton. There have been very few changes to the Annual Accounts since the draft set was presented to the Audit Committee in June 2017.

There has been one change to the main accounting statements (Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, Balance Sheet and Cash Flow Statement) that were submitted to Audit Committee in June.

Properties classed as investment properties (those that are held solely to earn income or for capital appreciation) are required to be revalued each year. The valuations for seven of the properties were not available at the time of completion of the draft accounts.

These valuations have now been provided. There has been no change in the valuation of five of these properties. However the remaining two assets have been revalued down by £8.503m in total. It is likely that these valuations will increase in future years as the premises become fully occupied.

This reduction is charged to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement and results in a reduced surplus on that statement from £8.865m to £362k. This additional charge is reversed in the Movement in Reserves Statement to the Capital Adjustment Account (an unusable reserve).

The net worth of the Council will reduce by £8.503m matching the reduction in the value of investment properties.

Relevant notes and the Group Accounts have been amended for this change.

In addition to the amendment above there have been the following changes to disclosure notes.

Additional information has been included in Note 35 (Investments) to show the Council's share of Manchester Airports Holdings Ltd.'s long term liabilities.

The financial instrument note (note 42) has been amended as follows:

- The short term investment of £5m has been included in the current loans and receivables figure.
- There are two ways in which fair value on outstanding debt can be calculated – either using new loan rates or using redemption rate. Whilst both options had been quoted in the note, the main table contained the fair value using the redemption rate. This has been changed to show the fair value using the new loan rate as it is felt this is more in line with the accounting code requirements.
- The fair value of the service concession has been included with the fair value figure for PFIs and finance leases.

The amount shown in the balance sheet is correct and remains unchanged therefore these changes have not impacted on any of the accounting statements.

The Committee were told that there is also an issue with the way that Pension Guarantees are treated, that have been provided by the Council to a number of organisations mainly as a result of staff transfers following outsourcing of services. The Council has disclosed these guarantees as a contingent liability, as have the majority of other authorities. Contingent liabilities are not required to be recognised in the balance sheet.

The technical team within Grant Thornton are referring this to the National Audit Office for consideration. One option is to treat this as an insurance contract rather than a contingent liability. There needs to be a consensus between the auditing firms on this and discussions between the National Audit Office and the firms are ongoing.

Treating these guarantees as an insurance contract would mean that the estimated liability would be disclosed in the balance sheet and be a charge to the Consolidated Income and Expenditure Statement resulting in a reduction in general reserves.

Whilst discussions are taking place the Council is quantifying the potential call on these guarantees. This is not expected to be a material figure and would therefore

not require an amendment to the accounts. The Committee were told that this should be resolved within the next few days and should not affect the ability to sign the Audit opinion, and despite some concern being raised that even a non-material figure could amount to several million pounds, officers confirmed that the likely net liability in relation to this would be a much lower amount.

The Committee were assured that the dates contained within the report were in fact correct due to the way in which the figures are reported over a 2 year period rather than a 1 year period.

Officers also confirmed that the Objection against the Accounts for 2015/16 has been resolved and is now concluded.

Decision

1. To note the amendments made to the annual accounts since they were reported to Audit Committee in June.
2. To approve the revised annual accounts including the accounting policies contained within them.
3. To approve and acknowledge the letter of representation in Appendix 1 which will be signed by the City Treasurer and the Chair of the Meeting.

AC/17/44 Draft Audit Findings Report.

The Committee received the report of Grant Thornton which highlighted the key issues affecting the results of Manchester City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2017. It is also used to report Grant Thornton's audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Grant Thornton told the Committee that the Audit is substantially complete, and they are on course to give their opinion well in advance of the statutory deadline of 30 September 2017.

No material adjustments have been identified, the Draft Accounts were of a good standard with good quality working papers to support the Accounts. They do anticipate providing an unqualified Audit Opinion on the Accounts, there were no control weaknesses in this regard.

The Value for Money conclusion is qualified, with the main area of concern being Children's Services, and Grant Thornton confirmed that proper arrangements were in place in all other areas of operation. Grant Thornton have included the good progress that has been made in the areas of concern, subject to the findings of the forthcoming inspection by OFSTED.

The Committee queried some of the internal control measures that are in place, particularly in relation to ICT and segregation of duties. This is in relation to a very

specific area of operation of SAP Superusers, and the access that such Superusers require as part of their roles and responsibilities. The Superusers are identified, and their access and activity is monitored for any risk on a regular basis.

Officers confirmed that all action that is taken on the recommendations is fully reported back to the Audit Committee, and that Internal Audit is already working with ICT and Data Governance to address and remove or reduce as far as possible any risk around the lack of segregation of duties.

The Committee asked why there were specialist legal fees incurred, and officers advised that there are occasions when matters brought to the attention of the Auditors require a specialist legal view. There is no guarantee that such fees will not be incurred from time to time in the future.

Decision

To note the report.

AC/17/45 Highways Improvement Update Report.

The Committee received the report of the Strategic Director, Highways, Transport and Engineering which provided an overview of service improvement within the Highways Service and provided specific updates in relation to action points highlighted in reports considered by Audit Committee on 6 October 2016 and 27 June 2017.

The Committee were told that over the last 5 years, as with many other public services, Highways have incurred budget reductions as a result of central government cuts; these cuts resulted in a reduction in capacity and the loss of key skills which has had a detrimental impact on service delivery. Consequently, there is now an increasing emphasis and need for growth, in-part demonstrated via the approval of £100m capital investment in March 2016; £80m for maintenance and a further £20m for the delivery of major infrastructure schemes. This investment will bring the City's roads back to a good standard, to be delivered alongside a programme of proactive maintenance to restore quality and integrity of the highways asset over the more medium to long-term.

Furthermore, management and delivery of the Highways function had been dispersed across the organisation over many years and whilst this approach delivered some success, there have been limitations. Consequently, opportunities to sufficiently address issues of process, technology and people integration were not sufficiently maximised to prevent impact on service delivery. In order to address and enhance opportunities for integration and service improvement, it was agreed in May 2016 that all functionality should be brought together under the single leadership of a Director of Highways reporting to the Chief Executive.

By bringing together all elements of Highways, structural integration has been achieved. However given the somewhat fragmented model that had been in place previously, there is a significant amount of work still required to embed cultural change and to fully develop improved methods of working that better integrate

process, technology and people across all aspects of the service; with the aim of improving planning, customer service and delivery. The scale of change required to fully integrate the service and embed cultural change should not be under-estimated and is evidenced through the work of this Audit review.

The pothole and drainage improvement programme has been completely overhauled at all stages of the process, with better quality control measures in place. Payment will not be made until the quality of any work undertaken is assessed and deemed to be satisfactory. In addition, Internal Audit will continue to monitor the progress of the implementation of the recommendations that they have made, and will undertake a further Audit towards the end of this year.

The Committee questioned whether the system of checking the quality of work is as effective as it should be, given their personal experiences that some issues are not being addressed in a timely manner. Officers confirmed that there is still a significant backlog of work, but that extra resources are in place to begin to address this. They also have new equipment that improves the efficiency of the process as workers are now not reliant on visual inspections only, which take significantly longer to complete. There is also a preventative programme which is designed to identify problems in advance and deal with them before they become acute issues.

The Committee queried whether inspections are undertaken over a period of time to assess whether repairs are lasting as long as they should do, and officers confirmed that there is a programme of inspection over a period of time to monitor the longer term effectiveness of work that has been completed. The Committee expressed concern that the ongoing assessment of longevity of repair may not be as effective as it should or could be.

There is also a current review of the training that is available as opposed to that which is required, and the Department uses workforce feedback to inform them of ongoing training needs. The performance of all officers is monitored, and action is taken where performance is not as good as it should or could be. The Committee expressed concern that action taken with regard to poor performance may not be as effective as it should or could be.

Officers also confirmed that there has been a Senior Officer Recruitment programme, and that they expect to appoint a Permanent Director in September. One other key post should be filled by December at the latest, which will provide a more stable leadership base for the Department as a whole.

The Committee also commented that Internal Audit should take a random sample of jet patching as part of contract management performance in relation to longevity of repair.

Decision

1. To request that the Chair of Neighbourhoods and Environment Scrutiny Committee reviews the minutes of this meeting in respect of this issue.
2. To request that the Chair of Neighbourhoods and Environment Scrutiny

Committee receives a copy of the next report after the anticipated Audit by Internal Audit and Risk Management.

3. That Internal Audit and Risk Management include longevity of repair as an area of interest in the forthcoming Audit.

AC/17/46 Internal Audit Update Report - Highways.

The Committee received the report of the Head of Internal Audit and Risk Management, which was considered under the same discussion as the Highways Improvement Update Report.

Decision

1. To request that the Chair of Neighbourhoods and Environment Scrutiny Committee reviews the minutes of this meeting in respect of this issue.
2. To request that the Chair of Neighbourhoods and Environment Scrutiny Committee receives a copy of the next report after the anticipated Audit by Internal Audit and Risk Management.
3. That Internal Audit and Risk Management include longevity of repair as an area of interest in the forthcoming Audit.

AC/17/46 Outstanding Audit Recommendations Update.

The Committee received the report of the Head of Internal Audit and Risk Management which summarised the current implementation position and arrangements for monitoring and reporting internal and external audit recommendations.

There is now only 1 high priority recommendation that has been outstanding for over 6 months, which is in relation to ICT. The Chief Information Officer will provide an update with regard to this at the October meeting of the Audit Committee.

The Committee commented that dispensation to not attend the Audit Committee in the case of relevant outstanding Audit recommendations will be given in extreme circumstances only.

Decision

1. To note the report
2. To note that dispensation to not attend the Audit Committee in the case of relevant outstanding Audit recommendations will be given in extreme circumstances only.
3. To request that any further comments on outstanding recommendations after 12 months will be reported to the relevant Director and Executive Member.

AC/17/47 Grenfell Tower – Manchester Governance Arrangements.

The Committee received the report of the Strategic Director (Development) which summarised the governance in place to manage Manchester's response to the Grenfell Tower tragedy.

The Committee were told that no tower block in Manchester has cladding of the same type as that used at the Grenfell Tower block, and that dialogue and communication with all the key Housing Provider Chief Executives and relevant senior council officers together with the Chief Fire Officer takes place on a fortnightly basis and will continue as long as is necessary. The Committee were told that there is an issue with the funding of any works, where there had been an initial assumption that remedial work would be funded from Central Government, this was not the case and that this would potentially have implications for the Council.

The City Council's Housing Revenue Account (HRA) Board is chaired by the City Treasurer and receives reports on the implications of the Grenfell Tragedy for the HRA. This is supported by a sub group of Council Officers and officers from the Councils managing agents, Northwards Housing, S4B and Renaissance Miles Platting. This group will work through the range of options and issues raised in September's Executive report and will recommend the best course of action to the Council, taking into account findings of the GM Task Group, any early findings of the Grenfell Inquiry, resources and risk.

The Committee were satisfied that they have an assurance that this issue is being taken very seriously and is being treated with the gravity that it merits. Officers also confirmed that all aspects of fire Safety are being taken into account, and that there is an agreement with all parties that checks will be undertaken with the highest level of vigilance possible.

Decision

To note the report.

AC/17/48 Work Programme and Recommendations Monitor.

The Committee considered the Work Programme and Recommendations Monitor.

Decision

1. To note both the Work Programme and Recommendations Monitor.

AC/17/49 Exclusion of the public.

A recommendation was made that the public be excluded during consideration of the items of business.

Decision

To exclude the public during consideration of the following items which involved

consideration of exempt information relating to the financial or business affairs of particular persons, and public interest in maintaining the exemption outweighed the public interest in disclosing the information.

AC/17/50 Annual Counter Fraud report

The Head of Internal Audit and Risk management presented the report that provided a summary on the outcome of proactive and reactive anti-fraud and investigation work during 2016/17, with a particular focus on the work delivered by Internal Audit. It outlines some of the areas of emerging fraud risk and the Council's strategic and operational arrangements for managing these risks.

Decision

1. To note the report
2. To recommend that the Whistleblowing Policy is more widely promoted to both officers and members of the public.