

Audit Committee

Minutes of the meeting held on 30 November 2017

Present:

Councillor Watson - In the Chair
Councillors Ahmed Ali, Andrews, Lanchbury and Siddiqi and

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

Councillor Flanagan, Executive Member for Finance and Human Resources

Also Present:

Mark Heap, Grant Thornton
Stephen Nixon, Grant Thornton

Apologies: Councillor Russell

AC/17/59 Appointment of Chair

Councillor Watson was appointed Chair for the duration of the meeting in the absence of Councillor Russell.

AC/17/60 Minutes

Decision

To agree that the minutes of the meeting held on 5 October 2017 are a correct record.

AC/17/61 Annual Governance Statement – Summary of Progress to Date

The Committee received a report of the Deputy City Treasurer which provided a summary of the progress that has been made in implementing the governance recommendations from the 2016/2017 Annual Governance Statement (AGS). The report, also provided an outline on the next steps in the producing the Annual Governance Statement 2017/2018.

The report informed the Committee that the Council has a statutory obligation to produce an AGS that provides an explanation of how the Council has complied with its Code of Corporate Governance. The AGS also sets out how the Council is meeting its responsibilities for ensuring that business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

The report also set out the governance challenges which the Council and its partners face, that are submitted as updates to the Audit Committee on a six monthly basis to ensure a constant focus is maintained. The Committee noted that a Strategic

Management Team lead officer has been identified for each of the 2016/2017 AGS governance actions. The officers are required to provide an update on progress, any identified risks and the ongoing work involved to implement the governance actions.

The report provided a summary of the progress being made on 12 Governance Actions that had been identified within the AGS.

The Actions include:

- Action 1 – Delivering “Our Manchester” strategy;
- Action 2 – Continued Improvement of Children’s Services and preparation for Ofsted re-inspection;
- Action 3 – Supporting the integration of health and social care;
- Action 4 – Improving the resilience and security of ICT systems and the Council’s arrangements for disaster recovery;
- Action 5 – Information Governance;
- Action 6 – Changes to the local government finance system, and delivery of continued significant savings;
- Action 7 – Ensuring the robust governance and delivery of the new five year Capital Programme Strategy;
- Action 8 – Waste collection and street cleansing contract performance improvement;
- Action 9 – Development, design and delivery of the Out Town Hall refurbishment project to time, cost and quality standards;
- Action 10 - Development of integrated Sources of assurance reporting including embedding an effective risk management approach;
- Action 11 - Maintaining a strategic leadership role for the Council in the context of changing national policy in relation to schools, including changes to the school funding formula and the reducing the role of local authorities. Via partnership working, support schools to deliver a good or better level of education and learning;
- Action 12 – Ensuring that services have clearly communicated and embedded the Constitution of the Council and all relevant policies and regulations which staff must comply with.

In welcoming the report the Chair made reference to paragraph 2.7 and the use of the words “the elderly” and requested this be amended and replaced with the words “older people”. Officers undertook to ensure that future reports submitted will use the appropriate language.

The Chair invited questions from the Committee.

Councillor Simcock thanked officers for the detail and breadth of information the report provided and requested that future reports be circulated with the agenda to allow members the time to read the reports thoroughly. He stated that the AGS report was useful to both elected members and the public because of the detailed overview it provided on the Council’s activities and initiatives within Manchester. Councillor Simcock also stated that he was not aware of some issues referred to in the report, in particular the “Our Manchester Experience” and made the point that many councillors, as well as the public, may also not be aware of this exhibition.

It was reported that information about the “Our Manchester Experience” interactive exhibition would be provided to all councillors.

The Chair requested officers to consider how communication with councillors could be improved to keep them updated on important city-wide issues that the council is involved with as well as those matters that relate to specific ward areas.

Councillor Flanagan noted the points raised regarding the way information is presented in reports and commented that the report authors should consider the public when writing reports to ensure the language and style used was user friendly and understandable to those outside of the organisation.

The Chair referred to the measurement of the “Our Manchester” element of the report and the need to integrate this with the other challenges listed. As an example the Chair referred to Action 8 (Waste Collection and Street Cleansing Contract Performance Improvement) and stated that the performance improvement in the collection of litter and fly-tipping clearance undertaken by local residents to improve their areas supported by councillors and officers wasn’t recognised in the report by the service provider. This important element was not measured although it was helping the service provider.

It was reported that detail on the overall measurement would start to be included with council services in the 2017/2018 AGS and in future updates. The measurement of “Our Manchester” programme was relatively new but was evolving and over time members would see the integration of “Our Manchester” within the overall performance measurement arrangements as a source of assurance. Data relating to recycling and the incidence of fly-tipping would be monitored and linked to help determine the impact of the new approach on areas of the city.

Councillor Ali referred to the issue of repeat fly-tipping around the “curry mile” area of Rusholme and asked if there was statistical information available on investigation of non-compliance and enforcement with regard to repeat culprit(s) and were resources available to deal with this.

It was reported that paragraph 9.3 of the report provided statistical information across the city based on the performance of the contract provider. The Performance Contract Management Group monitor and provided statistical information on fly-tipping detection and enforcement and would provide specific detail on the issue of repeat offenders for specific areas of the city.

The Committee welcomed the report which provided a comprehensive overall picture of the work of the city council. The Committee were also assured of the progress made on the challenges and actions detailed in the report.

Decisions

1. To note the report submitted.

2. To note the comments made with regard to the importance of circulating the city-wide information contained within the report for the information of all members of the council.
3. To note that all councillors will be made aware of the “Our Manchester Experience” interactive exhibition.
4. To request that officers include statistical information on repeat fly-tipping for areas of the city in future update reports.

AC/17/62 Treasury Management (Interim Report)

The Committee received the report of the City Treasurer which provided an interim report on the Treasury Management Activities of the Council during the first six months of the financial year 2017/2018. The Committee also received a presentation to provide an overview on work of Treasury Management within the Council from the Group Finance Lead officer (Capital and Treasury Management).

The City Treasurer reported that the subject of Treasury Management had become a more prominent and to ensure that members of the committee are assured and fully aware of strategies and policies, further training would be arranged for members of Audit Committee on roles and responsibilities and how this operates.

The Chair invited questions from the Committee.

Mr Downs referred to the GM Combined Authority (CA) debt that is included in the Council's debt figures and asked if this was counted against the Council's Capital Financing Requirement (CFR) and did this limit the amount the Council could borrow for its own purposes.

It was reported that because the Combined Authority currently does not have borrowing powers so the Council currently hosts the Housing Investment Fund on behalf of the CA. The Council's debt had increased as a result of the arrangement and this had increased the CFR by the same amount. Once the CA had borrowing powers both the council's debt and CFR would reduce.

Reference was made to the use of the Council's current level of cash reserves and how this may appear to the public in view of the requests and bids that are made to the Government to fund council services.

Councillor Flanagan reported that the Council's cash reserves are not amounts of spare money the Council holds. The Council's reserves are identified sums that have been committed for specific purposes within the annual budget.

The City Treasurer informed the Committee that the purpose of the reserves held covered a number of areas of Council and other services including the Housing Revenue Account, the Schools Reserve (which is held on behalf of schools in the city). The Council's also holds an insurance fund for the reason that the authority has to self-insure for some issues. Capital Receipt money is held in the reserves account until expenditure is incurred. The Council also holds an unallocated General Fund

reserve of £25m, which is set by the Council based on the annual budget to fund expenditure that may be required for emergencies.

Councillor Andrews asked if charges were made to the CA for the services of Council employed staff.

It was reported that the CA is charged for the services of Council officers.

Officers were asked what consequences there would be if the Council's own prudential indicators were breached.

It was reported that the prudential indicators were set at the start of the budget process and these were based on the best information available at that time. If there was a breach the consequence would require a report to the Executive and the Council to explain the reasons and consequences of a breach. If there were continual breaches it would be expected that the Council's external audit mechanism would raise an alert and escalate the situation. The City Treasurer reported that she has a statutory requirement to monitor the use of the Council's funds.

Reference was made to the MIFID II implications detailed in the report and officers were asked to explain whether achieving Professional Status allowed the Council to be better placed to access preferential lending rates. Also, if Professional Status was not achieved, would the Council be unable to continue trading in financial markets under its current arrangements.

It was reported that the aim of MIFID was to ensure that the Council receives a higher and more detailed level of advice from brokers and counter parties. The achievement of Professional Status will provide the Council with the broadest number of investment options and debt options rather than just seeking the most preferential returns. Not achieving Professional Status would severely restrict the Council's ability to invest with a broad number of banks and building societies and this would present a significant risk to the Council.

The Chair thanked officers for the report and presentation.

The Committee were assured of the Council's conduct relating to Treasury Management.

Decisions

1. To note the report submitted.
2. To note that training on the subject of Treasury Management will be arranged for members of the Committee.

AC/17/63 Annual Audit Letter

The Committee received the report from the Council's External Auditors (Grant Thornton) which presented a summary of the key findings from the work carried out to the Council and its external stakeholders for the financial year ended 31 March

2016/2017.

The Chair invited questions.

The external auditor was referred to the cost of the investigation carried in respect of to a local elector's objection and was asked if the same objection was made would it result in the same cost to the Council (£9,810) and was the objector told of the cost.

The Committee was informed that the investigation cost has been made public in the Annual Audit Letter. Each year electors are allowed to make objections to the auditors and each is considered individually. If similar issues raised that have been considered already they would then be used to form part of the consideration of a subsequent issue of investigation.

The Chair thanked the external officers for the letter and the conduct of the audit that had taken place.

Decision

To note Annual Audit Letter and the comments received.

AC/17/64 Audit Update Report

The Committee received the report of the Council's External Auditors (Grant Thornton) which presented a progress in delivering its external audit responsibilities. Reference was made to certification of audits undertaken in respect of Housing Benefits, Pooled Capital Receipts Return, Teacher's Pension Return and Homes and Communities Agency (HCA) Plymouth Grove Funding.

The Chair invited questions.

Mr Downs referred to the procurement of external audit services and requested that the Committee be notified when contracts for audit services to the Council were made. The external auditors were asked whether contracts would be awarded by lot or geographical basis. Questions were asked, in view of the complexity of the Council's financial governance, whether bidders competing for the contracts had been challenged on their experience, understanding and ability to deal with a large organisation. Also, had arrangements been made for the transition in the event of a new external auditor being appointed for the Council?

The Committee was informed that the Public Sector Audit Appointment (PSAA) oversaw the procurement process and would make the announcement on the appointment of contracts. Questions had been put to the (PSAA) before the procurement process had started on the robustness and experience of the companies bidding. Transitional arrangements for hand over were in place and this would be reported with the name of the external audit company appointed to the next meeting of the Committee.

The Chair referred to the amount (£24.6billion) of reserves held collectively by Local Authorities that was detailed in the report and asked if this was a generalised view

and potentially misleading information from the Department for Communities and Local Government (DCLG).

The City Treasurer reported that the statistics presented by the DCLG are taken from information contained in Revenue Allocation and Revenue Outturn returns provided by Councils. The Council is transparent in terms publicising the level of the reserves it holds, however there is a high level of complexity within the Council's reserves policy and this cannot be explained within a single sentence. The Council's budget strategy sets out the planned use of the Council's reserves at the start of the year as part of the budget setting process. The performance of the Council is then monitored throughout the year as part of the Council's Medium Term Financial Plan and within the end of year audited accounts.

The Chair suggested that the Chair of the Resource and Governance Scrutiny Committee be asked to consider how the Council's audit performance compares to other local authorities as a potential topic for scrutiny.

Decisions

1. To note the Audit Update report.
2. To suggest that Resource and Governance Scrutiny Committee consider the Council's audit performance as a potential subject for scrutiny.

AC/17/65 Internal Audit Assurance Report 2017/2018

The Committee received a report from the City Treasurer and the Head of Internal Audit and Risk Management which provided the Committee with a summary of the audit work that has been undertaken and the opinions that have been issued during the period April 2017 to October 2017.

The Chair invited questions.

Councillor Lanchbury sought assurance that staff dealing with the audit of Adult Services and integrated health and social care matters between the Council and Clinical Commissioning Groups (CCG) will be working to increase their knowledge and understanding of this area of service as a new area of work. Also how will the health audit provider and the Council Internal Audit service operate jointly and provide the assurance cover was being provide across all areas?

The Chair also sought assurance that there would be mechanisms in place at the start of the process for an integrated audit and reporting arrangement to avoid duplication of audit work and reporting to the Audit Committees of the Council and the CCG.

It was reported that the audit work would focus on the areas of governance and finance and not health or clinical audit issues. A joint audit plan would be agreed between the Council auditors and the CCGs auditors to ensure there was no duplication of work and to provide assurance of the audit process. The Council was currently working with the Mersey Internal Audit Group which has a wide experience

of this area of work and provides audit support across the Greater Manchester. The 2018/2019 Audit Plan will provide a complete overview of all the audit arrangements and planned activity. This will be in place by April 2018. Initial work was due to begin in January 2018 on governance and finance arrangements with pieces of audit work expected to be delivered this financial year.

The City Treasurer reported that the Council will build on the experience and learning of previous pooled budget joint structures with the health service where similar structures had been put in place. Work would also take place to develop legal agreements that would underpin the new structures and the development of the specific roles of the Audit Committees of both organisations to provide assurance.

Dr Barker referred to paragraph 4.9 of the report, in particular the moderate opinion given on the issue of email and internet filtering within the Council. Officers were asked to explain the outsourcing of ICT security provision to a third party provider and whether this presented an increased security risk to the Council. Reference was also made to paragraph 4.10 and the importance of data work on mobile phones to identify the number of phones in circulation.

It was reported that the challenge to the Council over the past three years had been the retention of ICT security staff due to the high demand for their services across the ICT sector. During this period the Council had appointed third party contractors and agency staff which had proved to be costly and unsustainable. The decision had been made to appointment a third party security provider to ensure that an appropriate level of ICT security cover is maintained. With regard to data work on mobile phones it was reported that issues had arisen from the work relating to high data users resulting in the provision of guidance to users. A definitive list of phones and users within the organisation would also be produced.

The Committee then discussed matters relating to limited assurance audit reports and what action should be taken following their publication.

The Chair asked the Committee to consider whether there was sufficient confidence provided by moderate assurance audit reports. The suggestion was made that where a service had shown no immediate or measureable improvement as part of the timescale set for improvement following an internal audit, the Audit Committee should invite the senior management of the service concerned and the relevant Executive member to attend a meeting to appear before the Committee.

Councillor Andrews expressed concern on the length of time taken by senior management to respond and in some cases where there had been no response to recommendations within the audit reports.

Mr Downs referred to the process used by the Committee to invite senior management and Executive members to answer questions on their service once a limited assurance report was produced. He made the point it would be more efficient and productive for the management of the service to attend Audit Committee rather than expect the Head of Internal Audit and Risk Management to respond to member questioning.

The Chair proposed that, in view of the comments made and the concerns expressed by the Committee, a report be submitted to the next meeting of Audit Committee to address the following issues:

- Identify the lessons learned from matters arising during the year relating to limited and no assurance internal audit reports and the scale of risk that this involves.
- Make reference to the issue of the substantial period of management review.
- Provision of clarity on the purpose of report recommendations and the timescales set for action on limited assurance and no assurance internal audit reports.
- Setting out the process for communicating the findings of audit reports to senior management and Executive members.
- Explanation on the importance of senior management to take action on report recommendations in a timely manner in consultation with the Executive member.
- Set out expectations of the Audit Committee on attendance at Audit Committee to explain the findings of an internal audit, how action will be taken to address recommendations and the timescale for this.
- Proposals on the most effective use of the Audit Committee's time to deal with issues arising from limited assurance and no assurance reports.

Decisions

1. To note the report.
2. To support the Internal Audit service to ensure that timescales for audit undertaken
3. To request that a report be submitted to the next meeting of the Committee to address the comments and concerns of the Committee regarding limited assurance and no assurance internal audit reports. The report to include reference to the following issues:
 - Identify the lessons learned from matters arising during the year relating to limited and no assurance internal audit reports and the scale of risk that this involves.
 - Reference to the issue of the substantial period of management review.
 - Provision of clarity on the purpose of report recommendations and the timescales set for action on limited assurance and no assurance internal audit reports.
 - Setting out the process for communicating the findings of audit reports to senior management and Executive members.
 - Explanation on the importance of senior management to take action on report recommendations in a timely manner in consultation with the Executive member.
 - Set out expectations of the Audit Committee on attendance at Audit

Committee to explain the findings of an internal audit, how action will be taken to address recommendations and the timescale for this.

- Proposals on the most effective use of the Audit Committee's time to deal with issues arising from limited assurance and no assurance reports.

AC/17/66 Outstanding Audit Recommendations

The Committee received a report from the City Treasurer and the Head of Internal Audit and Risk Management which provided a summary on the current position and arrangements for monitoring and reporting internal and external audit recommendations.

Decisions

1. To note the current process and position of the high priority Internal Audit recommendations.
2. To confirm the proposal to write back the recommendations made to ICT regarding out of hours working recommendation, given assurances provided to Audit Committee by the Chief Information Officer.

AC/17/67 Work Programme and Recommendations Monitor

The Committee considered the Work Programme and Recommendations Monitor.

The City Treasurer referred to a proposed additional meeting of the Committee in March to consider outstanding business.

Decisions

1. To agree that an additional meeting of Audit Committee will take place on Thursday 22 March 2018 at 10:00am, subject to confirmation of purdah prior to local elections.
2. To note both the current process and position Work Programme and Recommendations Monitor.