

Audit Committee

Minutes of the meeting held on 22 March 2018

Present:

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

Independent Co-opted member: Mr S Downs

Councillor Flanagan, Executive Member for Finance and Human Resources

Also Present:

Mark Heap, Grant Thornton
Stephen Nixon, Grant Thornton

Apologies: Councillor Russell and Dr D Barker

AC/18/11 Appointment of Chair

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

AC/18/12 Minutes

The minutes of the Audit Committee held on 25 January 2018 were submitted.

Decision

To agree that the minutes of the meeting held on 25 January 2018 are a correct record.

AC/18/13 Audit Plan (External Audit)

The Committee received the External Audit Plan for the year ending 31 March 2018 from the Council's External Auditors (Grant Thornton). Mark Heap (Grant Thornton) introduced the Plan and gave a broad overview of the planned scope and timing of the statutory audit of the Council accounts 2017/18. The Committee was informed that the Plan is risk based from a thorough understanding of the Council's business. The plan also provided details relating to Significant Risks, Materiality and a Value for Money Arrangements statement.

The meeting was informed that the External Auditors interim visit was ongoing and would be followed by further final visit during June 2018. Reference was made to Independence and non-audit services and it was reported that not all fees were

included in the Plan relating to subsidiaries of the Council.

The Committee also considered a letter from Grant Thornton regarding Certification Work for Manchester City Council for the year ended 31 March 2017. The certification related to the Housing Benefit subsidy claim submitted by Manchester City Council.

The Chair welcomed the report and invited questions from the Committee.

Councillor Ali referred to the Value for Money arrangements detailed within the Plan and the identified significant risk regarding working with partners and third parties, in particular, health and social care spending and decisions. The External Auditors were asked if this was their only value for money area of interest.

It was reported that the Council's work with partners and other third parties would be the main area of review during the current year. There would also be follow-up work on last year's qualification and the financial challenges facing the council as part of the financial statement and value for money conclusion work.

Mr Downs questioned the inclusion of the enhanced reporting requirements within the Plan and asked if arrangements had been made for the appointment of the Council's next external auditor.

The Committee was informed that because the City Council is a Public Interest Entity there is a requirement to provide enhanced audit reporting.

The City Treasurer reported that Mazar's had been appointed as the Council's new external auditor. The same company would act as external auditor for the all Greater Manchester Councils and the GM Combined Authority. The lead external auditor for the Council had been identified and an introductory contact arrangements had been made by the City Treasurer. It was proposed that the lead external auditor would attend the Audit Committee meeting in July 2018 as part of the audit transition process.

The Chair referred to the letter of certification work for the City Council and requested further explanation of the qualified claim made resulting from errors identified by the External Auditors.

The meeting was informed that the Public Sector Audit Appointments (PSAA) is responsible for the appointment of external auditors to the Council and require a summary of grant work undertaken each year. The only grant work identified by the PSAA related to the housing benefit grant. The letter submitted contained a summary of the Housing Benefits qualification letter issued to the Department of Work and Pensions (DWP). It was explained that the DWP is extremely prescriptive regarding the audit work that can take place and held a zero tolerance in relation to the housing benefit system errors. The errors identified are notified to either correct the benefit claim or are reported as an issue. The letter appended to the report provided a summary of the errors recorded.

The City Treasurer reported that the error was software based and related to a

technical reconciliation error between the housing benefit subsidy claim and the total payments made.

Decision

To note the report submitted and the comments made.

AC/18/14 Accounting Concepts and Policies, Critical Accounting Judgements and Key Sources of Estimation Uncertainty

The Committee received the report of the City Treasurer which provided details on the accounting concepts and policies, critical accounting judgments and key sources of estimation uncertainty that will be used in preparing the 2017/18 annual accounts.

The Chair invited questions from the Committee.

Councillor Andrews referred to the accounting policies not considered to be material and requested further explanation why Carbon Reduction Commitment had not been included.

The meeting was informed that the Carbon Reduction Commitment is classed is regarded as an intangible asset because it holds only a limited monetary value and under those terms it is not classed as a material consideration. The Carbon Reduction Commitment is not included within the formal part of the Council's accounting policy, however it would continue to be recorded, accounted for and tracked.

Decisions

1. To agree the accounting concepts and policies that will be used in completing the 2017/18 annual accounts.
2. To note the critical accounting judgements made and key sources of estimation uncertainty as detailed within the report submitted.

AC/18/15 Review of Effectiveness of Internal Audit

The Committee received the report from the City Treasurer and Head of Audit and Risk Management which set out the process of the 2017/18 review of effectiveness of internal audit, the key findings and actions proposed to further develop the effectiveness of internal audit in 2018/19. The report provided details of a quality assurance improvement programme update of the agreed improvement actions and the review of the internal audit service. The Committee was also requested to approve the Manchester City Council Internal Audit Charter 2018, as detailed in Appendix 1 of the report.

The Chair invited questions.

Councillor Ollerhead referred to the Internal Audit Service providing an internal audit service to the Council, Bolton MBC and the GM Combined Authority and asked if there was sufficient staff resources to sustain this level of cover in view of an increasing workload.

It was reported that a review of the audit service was ongoing with a view to increasing management and leadership capacity across the three teams concerned. Arrangements were also in place to address service capacity to ensure cover for the posts of staff on long term leave.

Councillor Lanchbury referred to paragraph 3.14 of the report regarding the findings and recommendations of the Local Government Ombudsman (LGO) following the investigation of a complaint. Officers were asked if the recommendations were in place and had there been any difficulty in their implementation. Officers were requested to share the findings of the LGO with the Committee.

It was confirmed that the recommendations were in place. The report of the LGO would be included within the Annual Counter Fraud report to the Committee.

Mr Downs referred to the Audit Outputs issued to date and asked officers to explain the reduction in the output in 2017/18 compared with previous years and whether the output figures for Bolton MBC and the GM Combined Authority had seen similar results.

It was reported that an Annual Audit Plan would be submitted to the Audit Committee which would provide details on the Council assurance framework arrangements. This would include the areas covered such as benchmarking and staffing arrangements.

The Chair referred to paragraphs 3.25-3.27 regarding the role of the Audit Committee and asked the Committee if it was satisfied with the description of the functions listed.

In endorsing the report, the Committee requested that recognition is made in the subsequent report to the role of the Audit Committee's independent members in providing in-depth knowledge, insight and understanding on the issues considered.

The Committee agreed that it was satisfied with the assurance provided by the review of effectiveness and management of improvement actions provided within the report it had considered.

Decisions

1. To note the update to the Service Development Programme.
2. To agree the Internal Audit Charter.
3. To endorse the Audit Committee Term of Reference.
4. To request that the subsequent reports on the Review of Effectiveness of Internal Audit include recognition of the importance of the role of the independent members serving on the Audit Committee.

AC/18/16 Head of Audit and Risk Management Annual Opinion

The Committee received the report of City Treasurer and Head of Audit and Risk Management which provided the Committee with the Head of Audit's annual assurance opinion. The report gave a summary outturn of the work of the Internal Audit Section for the period April 2017 to March 2018. The Opinion covered the areas of Governance, Risk and Control with the overall opinion given as moderate.

The Chair invited questions and comments from members on the report.

Mr Downs commented on the use of the term "moderate" used to describe the overall opinion and commented that the term "reasonable" had been used previously. The Committee was informed that the terminology to be used would be confirmed.

Mr Downs referred to contract management arrangements and expressed concern that no monitoring and tracking systems were in place on some Council contracts and asked how could value for money be achieved and potential fraud be prevented. The point was also made that using a contract management system will reduce officer time to conduct audit work and increase efficiency.

The City Treasurer informed the meeting that a report would be submitted to a future meeting on the subject of contract and system development work to address and improve the current contract management arrangements. Discussions on developing contract management arrangements were ongoing with officers involved with contract commissioning, contract procurement and Legal Services.

Councillor Ollerhead stated that recognition should be given to Council's lead in the work to development and improve contract management and procurement arrangements.

Councillor Ali referred to paragraph 5.10 of the report and suggested that future audits of Voluntary and Community Sector (VCS) grants could include an equality impact assessment and details on the geographical location of grant award recipients.

The Head of Audit and Risk Management reported that the audit process involved in VCS grants related to the systems and processes involved in the financial management and governance arrangements. Consideration would be given to geographical locations of grants made as part of the audit planning process for the next financial year.

Councillor Ollerhead referred to Health and Social Care Integration and the substantial change this presented to Manchester, in particular, the importance of audit work to ensure transparency on the use of Council finances. The suggestion was made that audit reports be submitted in respect of financial accounts and governance arrangements of the Local Care Organisation and Manchester Health and Social Care Commissioning to ensure transparency on the use of City Council finances.

The Chair commented that the view of the External Auditors was that Health and

Social Care Integration was the Council's highest area of risk. The Audit Committee needed to receive assurance and clarity that the Health and Social Care Integration governance arrangements would be included as part of the Audit Plan, in view of the concern expressed.

The City Treasurer undertook to include a report in the Committee Work Programme to provide assurance on the arrangements in place for Integration of Health and Social Care. This would include Statutory Officer roles and functions (Director of Adult Social Care Services and Section 151 Officer) and the ongoing work and other planned activity of Internal Audit Service, and in conjunction with Health Service and other audit colleagues.

Councillor Ollerhead sought assurance that the end of year accounts for Health and Social Care would be provided to the Committee.

The City Treasurer gave an assurance that under the Section 75 of the NHS Act 2006 (Pooling Budgets) Legislation and reserved matters, the financial accounts for Adult Social Care would be submitted to the Audit Committee.

The Chair thanked Councillor Flanagan in recognition of his involvement as Executive Member (Finance and Human Resources) for overseeing the improvement and development work relating to contract management.

Decisions

1. To note the report submitted.
2. To note the comments received.
3. To agree the inclusion of the following topics on the Committee Work Plan:
 - Governance arrangements for the Integration of Health and Social Care, including submission of end of year accounts in respect of the Local Care Organisation and Manchester Health and Social Care Commissioning.
 - Contract Management arrangements and system development.
4. To note the Council's prominent role in the development of commissioning, procurement and contract management.

AC/18/17 Draft Annual Governance Statement

The Committee received a report from the Deputy Chief Executive which set out the draft 2017/18 Annual Governance Statement (AGS). The Annual Governance Statement was produced following completion of the annual review of the Council's governance arrangements and systems of internal control. It was reported that the AGS had been considered by the Standards Committee.

The Chair welcomed the Statement and thanked officers for the improved format and

content of the statement.

Councillor Simcock proposed that, in view of there being no further scheduled meetings of the Audit Committee prior to the 31 May 2018 deadline, Councillor Watson, as the appointed chair for the meeting, be named as the point of contact to act on behalf of the Committee, for the agreement to any subsequent amendments to the Annual Governance Statement.

The City Treasurer informed the Committee that in agreeing to Councillor Watson to act as the point of contact to approve revisions against the AGS on behalf of the Committee, any subsequent material changes to the AGS would require consultation with all Committee members.

Decisions

1. To note the contents of the draft Annual Governance Statement 2017/18.
2. To agree to delegate authority to the Chief Executive, in consultation with Councillor M Watson (acting as the point of contact on behalf of the Audit Committee), to approve revisions to the Annual Governance Statement reflecting further progress against governance challenges made during the remainder of the 2017/18 financial year.
3. To note that any proposed material changes to the Annual Governance Statement would require consultation with all Committee members.

AC/18/18 Risk Review Item: Adults Assurance Update

The Committee received a report from the Executive Director for Strategic Commissioning and Director of Adult Social Care Services which presented an update on assurances relating to Internal Audit Service reports that contained limited assurance opinions in respect of the following Adult Services areas:

- Transition: Children to Adults
- Disability supported services, Quality Assurance
- Homecare Contracts
- Client Financial Services.

The Committee was invited to consider and comment on the assurance provided in response to the limited assurance opinions.

The Chair referred to the four limited assurance audit findings for Adult Services and noted the concerns of the Committee regarding the high risk to the Council presented by the Integration of Health and Social Care. Based on those issues, the Chair expressed concern regarding the level of confidence in Adult Services provided by the report submitted.

Councillor Ollerhead referred to the monitoring of Homecare Contracts budgets for

the payment of care providers. Concern was expressed that no robust processes appeared to be in place to monitor, check and validate that a service had been provided for invoices received.

The Chair stated that with regard to the Homecare Contract Service proposal to perform a full tender exercise in 2018, for an award at the end of the year there were no processes or systems in place to ensure correct payments to service providers or future contractors.

The Committee was informed that a monitoring system was in place and meetings were ongoing with the contract providers. The current system relied on the provider to monitor service provision before passing this on to the Council to check, validate and authorise payment. The service is arranged through a "time and task" system that involved the purchase of time slots. Unfortunately this system resulted in services not being provided widely at busy periods, such as breakfast time. It was determined that the system was not fit for purpose to meet the needs of service users and a consultation had taken place with stakeholders resulting in the introduction of a new outcome based service. Part of the new way of working involved the establishment of a Brokerage, Purchasing and Placement Team to monitor all aspects of the service including how and where the Council procures services.

The Chair asked if systems were now in place to provide assurance on the control and monitoring of financial payments to contractors and to check and ensure that the service purchased is delivered in accordance with contract specifications.

It was reported that a care monitoring system is in place and included visits to service users to check and ensure that services are being delivered. There are seventeen providers within the City and each were contacted to explain the Council's expectation of how the services will be delivered. The payment and financial processes and procedures would be improved as part of the new contracting model.

The Executive Director for Strategic Commissioning and Director of Adult Social Care Services was requested to submit a further report to the Audit Committee to present a plan to address the four limited assurance audit reports outlined in the report submitted.

The Committee agreed that it was not satisfied with the assurances provided by the Adult Assurance Update report and requested further action to be taken to address the concerns raised.

Decisions

1. To note the report submitted and concerns raised.
2. To request that a further report is submitted to the meeting of the Audit Committee 3 September 2018 action plan in place to deal with the four limited assurance audit reports.

AC/18/19 Register of Significant Partnerships – Information Update

The Committee received a report from the Deputy Chief Executive which provided supplementary information that had been requested at the previous meeting of the Audit Committee relating to the following Significant Partnerships:

- Manchester Safeguarding Children’s Board;
- AVRO and SHOUT Tenant Management Organisations; and
- Hulme High Street.

The Chair reported that she had agreed to the late submission of the Manchester Safeguarding Children’s Board Improvement Plan.

The Committee agreed that it was satisfied with the assurance provided by the report and supplementary information submitted.

Decisions

1. To note the report and supplementary information submitted in relation to the Council’s Register of Significant Partnerships.
2. To agree to the medium risk rating given to the Manchester Safeguarding Children’s Board.

AC/18/20 Outstanding Audit Recommendations

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

The Chair invited questions.

Councillor Andrews referred to the outstanding recommendations in the North West Foster Care Contract Monitoring report and asked the Head of Audit and Risk Management if the actions would be completed before the end of March 2018.

The Head of Audit and Risk Management undertook to contact the Head of Children’s Services on progress to implement the actions.

Councillor Flanagan reported that Councillor Sheikh should not be referred to as an Executive Member within the report appendices. Any matters relating to Children’s Services should be directed to Councillor Leese or Councillor S Murphy.

Councillor Ollerhead welcomed the report and recommended that the report be referred for consideration by the Overview and Scrutiny Co-ordinators Group.

Decisions

1. To note the report submitted.
2. To note the current process and position in respect of high priority Internal Audit recommendations.

AC/18/21 Work Programme and Recommendations Monitor

The Committee considered the Work Programme and Recommendations Monitor.

The Committee was informed that a training and development session would take place at the meeting of the Committee on 2 July 2018. A report outlining the development session and the preparation work would be submitted to the meeting on 11 June 2018.

Councillor Lanchbury requested that in view of the discussion regarding Contracts Management, it was important that sufficient time is allocated within the Work Programme to the consideration of a report on subject.

Decision

To note that the Work Programme will be updated for the next meeting of the Audit Committee.

AC/18/22 Thanks to Committee Members

Committee members thanked Councillor Watson for chairing meetings of the Committee in the absence of Councillor Russell.

The Committee noted that Councillor Siddiqi would be stepping down from her position as a Councillor and paid tribute to her long and valuable service to the Council and the City of Manchester.