

Manchester City Council
Report for Information

Report to: Audit Committee - 13 February 2024

Subject: Letters from those charged with Governance

Report of: Deputy Chief Executive and City Treasurer

Summary

As part of the audit of the accounts, the External Auditor requests information from the Deputy Chief Executive and City Treasurer and the Chair of the Audit Committee in respect of financial accounting arrangements, the risks of fraud and compliance with laws and regulations.

This report provides the responses issued to the External Auditor from (A) the Audit Committee Chair and (B) Deputy Chief Executive and City Treasurer for the audit of the 2022/23 accounts.

Recommendations

Members are requested to note the letters to the External Auditor agreed by the Audit Committee Chair and the Deputy Chief Executive and City Treasurer.

Wards Affected:

None

Contact Officers:

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Position: Deputy Chief Executive and City Treasurer

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Background documents (available for public inspection):

No specific reports other than referred to in the attached letters

A. Responses from the Chair of the Audit Committee
Council's processes and controls

Question	Response
How do you exercise oversight of management's processes in relation to:	
<ul style="list-style-type: none"> Undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments); 	Via Audit Committee oversight and approval of the draft and final accounts, outcome of financial reporting processes and the reporting of the work of the External Auditor.
<ul style="list-style-type: none"> Identifying and responding to risks of fraud in the Council, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist. 	Via the Counter Fraud Strategy and annual report of the Head of Audit and Risk Management – last reported to the Committee November 2023. This report included a copy of the Council’s Fraud Risk Assessment. For financial accounts as above.
<ul style="list-style-type: none"> Communicating to employees its view on business practice and ethical behaviour (for example by updating, communicating and monitoring against the Council’s code of conduct); and 	There are a range of mechanisms in place to promote positive business practice and ethical behaviour as part of Our People strategy that include: <ul style="list-style-type: none"> Regular confirmations that officers have confirmed agreement to the Code of Conduct and key policies. Regular review and refresh of the Code and associated policies. This includes leadership of ‘people’ policies by the HR&OD service and reporting to Scrutiny Committees. Recent updates include for example workforce equalities and workforce strategy documents – October 2023 Recording of interests generally and with a specific additional focus in procurement activities. Leadership and Management training programmes. Induction process for all new starters Regular communications to staff on key policies and procedural requirements. Online anti-fraud training and wider on-line learning packages for example around information security, cyber security and equality/diversity/inclusion.

Question	Response
	<p>The Annual Governance Statement (AGS) includes a service self-assessment process that provides a level of assurance that Heads of Service have considered staff awareness of a range of policies and standards, this informs improvement actions each year. This is approved annually and included in the annual statement of accounts.</p> <p>The Council's Monitoring Officer, DCE and City Treasurer, Deputy S151, Director of HROD, Deputy City Solicitor and Head of Audit and Risk Management in particular provide support to officers and Members and also provide oversight of the governance arrangements and through this they reinforce the need for high standards of behaviour and conduct.</p>
<ul style="list-style-type: none"> Communicating to you the processes for identifying and responding to fraud or error. 	<p>Via the Counter Fraud Strategy and annual report of the Head of Audit and Risk Management – November 2023.</p> <p>Audit Committee maintains oversight of the Anti-Fraud and Corruption Policy, Whistleblowing Policy, Anti Bribery Policy and Anti Money Laundering Policy – that are available to staff via the intranet.</p>
<p>How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2022/23? If so, please provide details.</p>	<p>Via the Counter Fraud Strategy and annual report of the Head of Audit and Risk Management (November 2023) as well as the annual audit opinion of the Head of Audit and Risk Management (June 2023). These reports would be used to confirm any breaches of internal control during 2022/23 identified through the audit process and actions being taken to address these. The reports do not highlight any significant or systemic breaches of internal control.</p>
<p>How do you gain assurance that all relevant laws and regulations have been complied with?</p>	<p>We rely on the work of the DCE and City Treasurer and the External Auditor in this regard. This includes Legal Services and Finance review of reports supporting key decisions.</p>
<p>Are you aware of any instances of non-compliance during 2022/23? If so, please provide details</p>	<p>There are no specific matters of concern beyond civil claims and matters of general business (e.g. ICO reports, complaints,</p>

Question	Response
	issues raised with Ombudsman etc) that I am aware of.
Are you aware of any actual or potential litigation or claims that would affect the financial statements? If so, please provide details.	<p>I am advised that Legal Services provide details of all outstanding claims against the Council to inform the final accounts; and that details of all claims over £100k are provided to the Council's Monitoring Officer, DCE and City Treasurer, Head of Legal Services and Head of Audit and Risk Management monthly and an individual assessment of the likelihood and value of settlement is provided.</p> <p>The DCE and City Treasurer provides assurance that the assessment of claims and required reserves and provisions are reflected in the final accounts.</p>

Fraud

Question	Response
1. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2022 - 31 March 2023? (if yes, please provide details)	Yes – these are set out in the Internal Audit Annual Counter Fraud Report (November 2023) to which the external auditor has access. None of the concerns reported to me or to Audit Committee indicate a systemic or significant fraud risk across the Council.
2. Do you suspect fraud may be occurring within the Council?	Yes, as above – given the size, scale and complexity of the Council I cannot provide complete assurance that there is no fraud (or theft, irregularity) occurring, but I do not consider from reports being provided to me that there is systemic or significant fraud risk across the Council.
3. Have you identified any specific fraud risks within the Council?	These are reported to the Head of Audit and Risk Management and the Audit Committee and are set out in the fraud risk assessment included in the Internal Audit Annual Counter Fraud Report (November 2023)
4. Are you satisfied that internal controls, including segregation of duties, exist and work effectively? (if yes, please provide details)	Yes – these are reviewed by management and independently by Internal Audit and risks reported to Audit Committee. The work of checking internal controls does inevitably identify areas for improvement and Audit

Question	Response
	Committee oversee actions being taken to address these.
5. If not where are the risk areas?	Areas of risk are reported in the reports of the Head of Audit and Risk Management as summarised in the annual opinion as presented to Audit Committee. Matters may also be reflected in the Annual Governance Statement based on a robust holistic assessment of organisational governance arrangements and improvements are monitored through SMT and Audit Committee oversight of this process.
6. How do you encourage staff to report their concerns about fraud?	<p>All staff are encouraged to speak up on matters of concern, including fraud, and this is emphasised in the Council behaviours and Officer Code of Conduct.</p> <p>The Council has a Whistleblowing Policy with associated contact number, email and on-line reporting form; and details of the use of these by staff are reported in the Annual Counter Fraud Report (November 2023). Details of staff awareness and communications are reflected in the Counter Fraud Strategy.</p> <p>The Council also has existing policies and procedural frameworks around complaints and employee dispute and officers who lead in these policy areas engage with Internal Audit to share possible concerns that might constitute whistleblowing.</p>
7. What concerns about fraud are staff expected to report?	Any concerns over fraud within or against the Council – this could include theft, bribery, corruption etc
8. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	<p>Related party relationships and transactions involving suppliers could give risk to risks of fraud, but these are assessed alongside wider fraud risks as part of the Council's counter fraud and financial management arrangements.</p> <p>Declarations of interest is included as part of the procurement process for</p>

Question	Response
	officers and any potential conflicts are also declared by all Members.
9. How do you mitigate the risks associated with fraud related to related party relationships and transactions?	From an Audit Committee perspective this is through the procurement process, contract management and monitoring and a robust partnership governance framework, including the significant partnership register.
10. Are you aware of any entries made in the accounting records that you believe, or suspect are false or intentionally misleading?	No – but I and the Audit Committee seek independent assurance in this regard from the External Auditor.
11. Are there particular balances in the accounts where fraud is more likely to occur?	Income and payments present an element of risk of fraud/theft/loss but there are no particular balances I consider present a heightened risk of fraud.
12. Are you aware of any assets, liabilities, or transactions that you believe have been improperly included or omitted from the accounts of the Council?	No – but I and the Audit Committee seek independent assurance in this regard from the DCE and City Treasurer and the External Auditor
13. Could a false accounting entry escape detection? If so, how?	None that I am specifically aware of, but I and the Audit Committee seek independent assurance in this regard from the DCE and City Treasurer, Finance Teams, Internal Audit and the External Auditor
14. Are there any external fraud risk factors, such as collection of revenues?	<p>There are a range of external fraud risks as set out in the annual fraud report (November 2023). These include areas where there is a financial incentive for external persons to commit fraud against the Council such as:</p> <ul style="list-style-type: none"> • Revenues / income – Council tax, business rates etc • Payment misdirection / interception • Claimant fraud – social care, housing, grants etc • Overclaiming for costs of goods / services
15. Are you aware of any organisational or management pressure to meet financial or operating targets?	As a Council we are under pressure to the deliver the best possible outcomes for residents of the City but there is not inappropriate pressure to meet targets. There is pressure to meet targets but through sound practice and performance

Question	Response
16. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	I am not aware of inappropriate pressures being applied to management or to Members or any incentives that could drive negative behaviours. As a Council we are under pressure to deliver the best possible outcomes for residents of the City but there is not inappropriate pressure to meet targets.
17. What arrangements has the Council put in place in response to the Bribery Act 2010?	The Council has an anti-Bribery Policy in place and on-line counter fraud training for staff. A key area of inherent risk for bribery is procurement and there are strong controls in place with declarations of interest, selection of appropriate panels and oversight from the Corporate Procurement and Commissioning Service in contract letting and award processes. At Audit Committee (and also via the Resources and Governance Scrutiny Committee) Councillors are provided with updates and independent assurance over the systems in place for procurement.

B. Responses from the Deputy Chief Executive and City Treasurer

Processes and controls

Question	Response
<p>What processes are in place at the Council to:</p> <ul style="list-style-type: none"> Undertake an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments) 	<p>The Council has robust processes in place for budget setting and monitoring. This includes monthly in depth monitoring of high risks areas and regular reporting through to SMT and Executive, providing a high degree of oversight.</p> <p>The financial accounts are prepared in line with a clear timetable and set of requirements overseen by experienced, qualified finance professionals with addition rigour applied in areas of estimates and assumptions such as the determination of provisions and reserves. This process and timetable is shared with the External Auditor and their advice and input is sought on matters of complexity or key judgements. Specialist financial advisors are used as appropriate for particularly complex transactions.</p>

Question	Response
	<p>A lessons learnt exercise was carried out on the 2021/22 Final Accounts process with an action plan to address areas for improvement including to ensure accurate valuations can be carried out in line with accounting standards and the use of peer quality assurance / review / challenge of the accounts from within the finance team to help highlight possible anomalies or errors. Core financial systems form part of the focus of Internal Audit as part of the annual audit plan.</p> <p>Through review of budget monitoring and final accounts processes and reports, including the draft accounts, I have a high degree of confidence that the financial accounts are free from material fraud and error.</p>
<ul style="list-style-type: none"> Identify and respond to risks of fraud 	<p>Through regular reporting to me by the Head of Audit and Risk Management. I also receive copies of all investigation reports and updates on areas of risk identified on an ongoing basis. These matters are also discussed in my 121 meetings with the Head of Audit and Risk Management.</p> <p>The work of the Counter Fraud and Irregularity Team in Internal Audit is based on an organisational risk assessment and includes focus on internal fraud and error risk as well as external risks presented in areas such as payments, Council Tax Reduction, Business Rates and Housing. This risk assessment is updated for issues arising and feeds into the annual internal audit plan so that additional assurance can be obtained in areas of known risk.</p> <p>There is a clear policy framework and this includes regular refresh of policies and procedures including engagement with Trades Unions and Members via the Audit Committee. These are available to all staff on the intranet.</p> <p>All of this work is summarised in the Counter Fraud Strategy and included in the annual report of the Head of Audit and Risk Management – November 2023.</p>

Question	Response
	For financial accounts as above.
<ul style="list-style-type: none"> Communicate to employees the Council's views on business practice and ethical behaviour (for example by updating, communicating, and monitoring against relevant codes of conduct) 	<p>Via the communications strategy set out in the Counter Fraud Strategy.</p> <p>There are a range of mechanisms in place to promote positive business practice and ethical behaviour as part of Our People strategy that include:</p> <ul style="list-style-type: none"> Regular confirmations that officers have confirmed agreement to the Code of Conduct and other key policies and training. Development and update of the Code and governance handbook – including quick guide to the constitution OurManchester Leadership and Management training programmes; as well as briefings held with Senior Leadership Group. Induction process for all new starters Regular communications to staff on key policies and procedural requirements. On line anti-fraud training and wider on-line learning packages for example around information security, cyber security and EDI. <p>The annual governance statement includes a service self assessment process that provides a level of assurance to me that Heads of Service has considered staff awareness of a range of policies and standards and this informs improvement actions each year.</p> <p>Alongside my role, the Council’s Monitoring Officer, Deputy S151, Director of HROD, Head of Legal Services and Head of Audit and Risk Management in particular provide support to officers and Members and also provide oversight of the governance arrangements and through this they reinforce the need for high standards of behaviour and conduct.</p>
<ul style="list-style-type: none"> Communicate to the Audit Committee the processes for 	This is done primarily through the Counter Fraud Strategy and annual report of the Head

Question	Response
<p>identifying and responding to fraud or error.</p>	<p>of Audit and Risk Management – November 2023. Audit Committee maintains oversight of the Anti-Fraud and Corruption Policy, Whistleblowing Policy, Anti Bribery Policy and Anti Money Laundering Policy – that are available to staff via the intranet.</p>
<p>How does management gain assurance that all relevant laws and regulations have been complied with? Have there been any instances of non-compliance during 2022/23?</p>	<p>The Council has a clear, transparent constitution that is subject to regular review and refresh to ensure that it remains up to date and reflects relevant laws and regulations. This process is overseen by the City Solicitor who has a key role through her service to seek assurance and provide support to ensure compliance with laws and regulations.</p> <p>Reports supporting decision making included oversight by Legal Services and Finance to ensure that decisions are lawful and in accordance with the Constitution.</p> <p>The Commercial Governance Team under the Deputy City Treasurer works closely with Legal and Democratic services in ensuring the legality of decision making. This team also supports the Commercial Board with senior representation from a range of key support services (procurement, commissioning, legal, finance, audit etc) focused on the commercial and legality aspects of contracts, companies and partnerships.</p> <p>The Council's policy framework and supporting procedures are designed to ensure compliance with laws and regulations in respect of such matters as employment law, equalities duties and data protection legislation.</p> <p>There are no specific matters of concern beyond civil claims and matters of general business (e.g. ICO complaints, issues raised with Ombudsman) that I am aware of.</p>
<p>Are there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>Legal Services provide details of all outstanding claims against the Council to inform the final accounts. This is provided to my finance teams to inform the determination</p>

Question	Response
	<p>of provisions, reserves and any potential contingent liabilities.</p> <p>There is a pro-active approach to identifying potential future risks of claims and litigation which includes finance and legal services officers engaging with Directorate Management Teams and Chief Officers to understand potential future risks. Legal also work closely with the Insurance Team to identify and evaluate the risks associated with untoward events to assess the likelihood and scale of impact of potential litigation. These risks are assessed and recorded by Legal Services to inform the process of financial management and financial reporting.</p> <p>Details of all claims over £100k are provided to me and the Council's Monitoring Officer, Head of Legal Services and Head of Audit and Risk Management monthly and an individual assessment of the likelihood and value of settlement is provided. Where there is a financial risk attributed to such claims (or risks of claims) they are reflected in the financial accounts and subject to review by External Audit.</p>
<p>What controls are in place to: identify, authorise, approve, account for, and disclose related party transactions and relationships? For any new related parties (i.e. any not already disclosed in the previous year's audited financial statements) please provide a list of them, explain their nature, and whether there have been any transactions with these related parties during the year to 31 March 2023.</p>	<p>The process for identifying related parties is undertaken as part of the annual accounts and is informed by:</p> <ul style="list-style-type: none"> • Declarations of interest (senior officers and Members) • The Council's significant partnership register and work of the Commercial Board • Legal Services review of officer/member roles in companies and partnerships. <p>This process informs the disclosure of related party transactions.</p> <p>A list of all such related parties will be provided as required as part of the audit of the accounts and the totals of material transactions with related parties form a note to the accounts.</p>

Fraud

Question	Response
1. Are you aware of any actual, suspected or alleged instances of fraud during the period 1 April 2022 - 31 March 2023? (if yes, please provide details)	Yes – these are set out in the Internal Audit Annual Counter Fraud Report (November 2023) to which the external auditor has access. None of the concerns reported to me or to Audit Committee indicate a systemic or significant fraud risk across the Council.
2. Do you suspect fraud may be occurring within the Council?	Yes, as above – given the size, scale and complexity of the Council I cannot provide complete assurance that there is no fraud (or theft, irregularity) occurring, but I do not consider there is systemic or significant fraud risk across the Council.
3. Have you identified any specific fraud risks within the Council?	Yes – these are set out in the Counter Fraud Strategy and the Internal Audit Annual Counter Fraud Report (November 2023). For 2022/23 this continued to include risks around Covid19-related grants administered by the Council but where the design of controls and roles of finance, revenues, assessments and internal audit has managed risk effectively. Other areas include procurement, cyber and payment/income processes.
4. Are you satisfied that internal controls, including segregation of duties, exist and work effectively? (if yes, please provide details)	Yes – these are reviewed by management and independently by Internal Audit and risks reported to Audit Committee. The work of checking internal controls does inevitably identify areas for improvement and SMT and Audit Committee oversee actions being taken to address these.
5. If not where are the risk areas?	Areas of risk are included in the reports of the Head of Audit and Risk Management as summarised in the annual opinion presented to Audit Committee (June 2023). Matters may also be reflected in the Annual Governance Statement based on a robust holistic assessment of organisational governance arrangements and improvements are monitored through SMT and Audit Committee oversight of this process.

Question	Response
6. How do you encourage staff to report their concerns about fraud?	The Council has a Whistleblowing Policy with associated contact number, email and on-line reporting form; and details of the use of these by staff are reported in the Annual Counter Fraud Report (November 2023). Details of staff awareness and communications are reflected in the Counter Fraud Strategy, and these include access to on-line awareness training and corporate communications. Policies are accessible on the intranet.
7. What concerns about fraud are staff expected to report?	Any concerns over fraud within or against the Council – this could include theft, bribery, corruption etc
8. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?	Related party relationships and transactions involving suppliers could give rise to risks of fraud, but these are assessed alongside wider fraud risks as part of the Council's counter fraud and financial management arrangements.
9. How do you mitigate the risks associated with fraud related to related party relationships and transactions?	Through a robust procurement process and through contract management and monitoring and a robust partnership governance framework, including the significant partnership register and Commercial Board.
10. Are you aware of any entries made in the accounting records that you believe or suspect are false or intentionally misleading?	No – I obtain assurance on this from the finance teams involved in the production of the accounting records and Statement of Accounts including the Deputy City Treasurer; and independent assurance in this regard from the External Auditor
11. Are there particular balances in the accounts where fraud is more likely to occur?	Income and payments present an element of risk of fraud/theft/loss but there are no particular balances I consider present a heightened risk of fraud.
12. Are you aware of any assets, liabilities, or transactions that you believe have been improperly included or omitted from the accounts of the Council?	No – I obtain assurance on this from the finance teams involved in the production of the accounting records and Statement of Accounts; and independent assurance in this regard from the External Auditor
13. Could a false accounting entry escape detection? If so, how?	There are no specific areas I am aware of where a false accounting entry could escape detection – I obtain assurance on this from the finance teams involved

Question	Response
	in the production of the accounting records including review and approval of journals and production of the Statement of Accounts; and independent assurance in this regard from the External Auditor
14. Are there any external fraud risk factors, such as collection of revenues?	<p>There are no specific material external fraud risk factors that I am aware – fraud risks from external sources are considered as part of overall risk assessments and control procedures and could include but are not limited to:</p> <ul style="list-style-type: none"> • Misstatement of invoices / overcharging by suppliers • Money laundering in the revenues cycle • False claims by residents or other third parties. <p>I am assured over the policy frameworks and controls that operate in these areas</p>
15. Are you aware of any organisational or management pressure to meet financial or operating targets?	<p>There is reasonable pressure to meet targets in terms of performance, outcomes and financial management but these are no more than I would expect given the Council's priorities and need to ensure a balanced budget. All managers have individual objectives and for senior staff these are reviewed by SMT and performance against these is reviewed by chief officers with support of HROD – this would pick up any unrealistic targets that might lead to inappropriate organisational or management pressure.</p>
16. Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?	As above
17. What arrangements has the Council put in place in response to the Bribery Act 2010?	<p>The Council has a policy and procedure in place and is accessible to all staff via the intranet. All staff and key services have been made aware of this via corporate communications and is emphasised as part of briefings and audit support to key services such as Procurement and Legal Services.</p>