

## **Audit Committee**

### **Minutes of the meeting held on 30<sup>th</sup> October 2008**

#### **Present:**

Councillor Watson – In the Chair  
Councillors Clayton, Isherwood, Swannick and Trotman.

#### **Also Present by invitation:**

Councillor Priest, Executive Member for Finance and Human Resources.

Unable to be present: Councillors Morrison, Smith and Wheale.

#### **AC/08/36 Minutes**

The City Treasurer updated the Committee in relation to actions taken to secure appointments to the independent members of the Committee and the intention to make recommendations to the Constitutional and Nomination Committee on 3<sup>rd</sup> December 2008. A report would be brought to the Committee on 4<sup>th</sup> December 2008.

#### **Decision**

1. To approve the minutes of the meeting held on 25<sup>th</sup> September 2008 as a correct record.
2. To authorise the Chair and Councillor Trotman and Clayton (Councillor Wheale as deputy) to meet the candidates for consideration for appointment as independent members of the Committee.

#### **AC/08/37 Members**

The Chair welcomed Councillor Swannick to his first meeting and members extended thanks to Councillor Paul Murphy for his past contribution to the work of the Committee. Members also noted that Councillor Morrison was currently recovering following a stay in hospital and extended their best wishes to him for a full and speedy recovery.

#### **AC/08/38 Internal Audit Plan – updated plan**

As a result of bringing the Internal Audit year-end forward from June 2009 to March 2009, the annual Internal Audit Plan has been reviewed and updated and the City Treasurer now submitted the revised plan for the period July 2008 to March 2009 for consideration by the Committee.

The Interim Head of Internal Audit assured the Committee that whilst some elements of work had been re-ordered and would be dealt with as part of the 2009/10 plan, nothing had been lost from the original plan and nothing that was already in progress would be interrupted by the changes now proposed. He also assured members that the plan was deliverable within the resources currently available based on efficiency improvements to be introduced by the end of the financial year, and including external resources that were already planned to be bought in to deal with FMSIS audits.

A member challenged the assertion that nothing from the existing plan was being lost by making reference to the overall loss of 587 audit days between the two plans. The Interim Head of Internal Audit indicated that it was anticipated that the difference in the number of days would reflect the impact of streamlining and smarter and more efficient use of time and resources. He went on to identify that a challenging target had been agreed with the team and they had been able to identify a planned reduction of 600 days of direct audit time, largely in respect of consultancy and advice (200 days), recommendations monitoring (100 days) and schools (54 days). He emphasised that these arrangements were for the interim period and were designed to enable delivery of the 2008/09 audit plan, but should also provide a sound basis for the development of the 2009/10 plan.

Members also questioned the extent to which the Council was still potentially exposed in relation to ERDF claw-back. The City Treasurer indicated that a full assurance had been received that past schemes were not going to be subject to claw-back but vigilance continued to be necessary in relation to current schemes funded through ERDF funding streams, and an officer group was currently engaged in work to ensure that robust audit trails existed in relation to all such schemes.

### **Decision**

1. To approve the updated Internal Audit Plan.
2. To welcome the improved format of reporting that will better enable the Committee to track the overall achievement of the plan and highlight any areas that are in danger of not being completed by year-end..

### **AC/08/39 Internal Audit – assurance update**

To provide the quarterly assurance update, along with an update on the operational management and development of the Council's Internal Audit Service. The report provided an update of internal audit activity for the period July 2008 to September 2008, including an update of key issues being addressed in the operational delivery of the service; an assurance update for the period from 1 July 2008 to 30 September 2008 as a summary of assurance opinions issued in assignment reports, and an update on progress against the Interim Head of Internal Audit's project plan.

In introducing the report the Interim Head of Audit indicated that this was the first in a series of quarterly reports that would enable the Committee to better track progress and hold the internal audit service to account. He acknowledged that the targets set would stretch the service, but he believed that they were deliverable.

Reference was made to the audit work in relation to Urban Traffic Control where no assurance opinion had been issued, and members wanted to establish the extent of risk involved for the Council. The City Treasurer indicated that the concerns amounting from this audit were principally associated with failure by this isolated areas of Council activity to fully comply with corporate procurement processes. There was clearly scope for improvement but he was satisfied that improvements were being implemented that would remove any element of significant risk to the Council and which would soon enable him to issue a revised assurance opinion for the service.

A member focused on the working being done with schools, and the importance of ensuring that schools were using FMSIS effectively in view of the increased budgets now delegated to schools. She was not confident from her experience as a school governor that sound processes were yet in place by which schools would report back on the actions that they had taken to implement the recommendations emerging from audit inspections and this was borne out by the 'moderate assurance' classification in the report and that the capacity to improve was only medium. The Interim Head of Internal Audit shared these concerns and outlined work that was on-going with schools to develop structured mechanisms for ensuring that the outcomes of audit inspections were effectively responded to, and for bringing issues forward to the Audit Committee where this was not happening.

Referring to the diagrammatic presentations in the report a member indicated that it would be helpful if future reports also included the figures that those diagrams reflected so that members could better identify variations.

### **Decision**

To note the report; to welcome the improved format of reporting and to look forward to future reports highlighting progress achieved in the capacity to improve in relation to those reviews where less than a full assurance opinion is given.

### **AC/08/40 Review of Audit Committee arrangements**

The Committee considered a report by Grant Thornton reviewing the work of the Audit Committee following the self-assessment exercise conducted with members during the summer. The report indicated that Grant Thornton had observed members' keenness to strengthen the pivotal role and profile of the Committee, to improve control and drive performance and they supported the important role of senior Council members and officers in ensuring the role of the Committee was better understood across the Council, and recognised as key to setting the right tone for governance, providing assurance and driving improvement in the Council. The report highlighted areas of existing strength and also areas where it was considered that improvements could be made that would enable the Committee to be even more effective. A proposed action plan was proposed to address those areas where it was considered that the Committee's influence and effectiveness could be improved.

The report returned to an issue in relation to the membership of the Committee, and in particular propounded the view that to effect independence and objectivity members of the Audit Committee should not also be members of other key Council Committees. Whilst accepting the argument that it would be inappropriate for Executive members to sit as

members of the Audit Committee, wider arguments mounted previously by the Audit Commission that the membership of the Committee should be separate from the wider functions of the Council were considered unworkable. The Committee had always held that it was essential that Manchester councillors were able to make a contribution at every level to the life and work of the Council and fulfil the wider duties of an elected representative serving the communities of Manchester. This breadth of experience of the working of the Council is seen as empowering in terms of equipping members with the information and insights necessary to mount the necessary challenges to the fiduciary control of the Council.

Commending the action plan to the Committee, the Chair suggested that there should be a pre-meeting of members in advance of each meeting to give members an opportunity to structure challenges to the items on the agenda and to deal with political matters that should not form part of the work of the Committee meeting. This approach was agreed and the Committee agreed also that future meetings of the Committee should commence at 10.30am to accommodate the pre-meeting,

### **Decision**

1. To note the report and approve the action plan proposed in response to the main findings.
2. To agree that future meetings of the Committee be convened at the later time of 10.30am.

### **AC/08/41 Review of Audit Committee arrangements**

The Committee considered a report of Grant Thornton in relation to a review of the Council's information systems controls to support the audit of the 2007/08 accounts, including general IT controls and SAP specific controls work. The report summarised the principal matters arising from that review for those charged with governance..

In terms of its key findings the Council's IT control environment were assessed as sufficient to support the planned approach to the audit of the 2007/08 accounts.

In order to obtain this assurance, some additional work was performed with the Council to assess and quantify the potential impact of identified control issues and to identify compensating controls from which the areas where the Council needed to improve IT controls were –

- implementing an IT disaster recovery plan and IT strategy;
- removing enhanced user accesses that are no longer required now that SAP has been implemented;
- strengthening controls and audit trails for setting up new SAP user accounts, and
- ensuring more consistent application of change control processes for SAP and other systems.

**Decision**

To note the report and to agree that the Committee should monitor implementation of the recommendations arising.