

Audit Committee

Minutes of the meeting held on 3 June 2010

Present: Councillor Watson – In the Chair
Councillors Clayton, Morrison, Sandiford, Trotman and Swannick.
Mr John Tench.

Also Present:
Councillor Smith – Assistant Executive Member for Finance and Human Resources.
Sarah Howard and Gavin Blackstone (Grant Thornton)

AC/10/19 Minutes

The minutes of the meeting held on 11th March 2010 were submitted.
The Chair referred to the Committee's previous request to the Human Resources Sub Group of the Resources and Governance Overview and Scrutiny Committee to look at the Use of Resources Action Plan. In the light of changes in HR structures the Sub Group had requested that this work should be removed from their forward work programme at this time. The Committee agreed.

Decision

1. To approve as a correct record the minutes of the meeting held on 11th March 2010.
2. To agree to the request of the Human Resources Sub Group to take no further action at this time on the request for it to consider the Use of Resources Action Plan.

AC/10/20 External Audit Programme 2009/10

A report was submitted by the Council's Auditors (Grant Thornton) on the progress made in relation to the External Audit programme for 2009/10.

Prefacing the introduction to the report, the Chair referred to the recent decision by the Government to immediately discontinue the Comprehensive Area Assessment process. She was concerned that the Council had already committed resources for the assessment process for 2009/10 and felt that this work should not be lost. The auditors indicated that whilst the impact of the Government's decision was that they would no longer be using the CAA scoring matrix, moderating or publishing the scores, the work in relation to assessing the Council's use of resources score had already been substantially completed and shared with the Audit Commission. This would otherwise have resulted in the Council having an improved score of 3 in relation to that assessment and the Committee was reassured that the work already done would not be wasted insofar as the findings and valuations in relation to the use of resources assessment would continue to be valid in the context of the auditor's key messages in relation to all the Council's resources assessments.

The Committee then discussed the importance of there being a successor system to CAA that transparently provided assurance that the Council was using its resources

to best effect, and that the Council was able to use that information to make judgements based on quality information, Grant Thornton indicated that regardless of the changes introduced by government, the Audit Commission had in any event been considering significant changes to the existing assessment arrangements.

Decision

1. To note the report on the implementation of the 2009/2010 external audit plan.
2. To request the auditors to ensure that work that has already been completed to validate the Council's use of resources score under the CAA arrangements continues to be properly reflected in their Use of Resources statement for 2009/10 so that the resources expended in undertaking the validation work is not otherwise wasted.
3. To request the Council's officers to bring forward a report that seeks to capture the CAA information for 2009/10 for other assessment elements and to identify other measures that will ensure that the Council embeds the principles of the use of resources assessment and area assessment into on-going mainstream performance management arrangements.

AC/10/21 Annual Audit Fee 2010/11

A report of Grant Thornton was submitted setting out their proposed fee for audit work on behalf of the Council in the current financial year.

Members enquired whether Grant Thornton would need to re-assess the fee calculation in the light of the discontinuation of the CAA assessment system. Sarah Thornton outlined the difficulties involved in trying to anticipate the volume of work that would be necessary in any given year. She accepted that there would be a revised assessment process and that whilst the nature of that process was not yet known it was likely to be smaller in scale, however there was other work, including work on 'red flag' areas around school attendance, that the Council may wish to see progressed that could now be accommodated within the ballpark fee, and discussions would take place with the Council's officers to finalise the external audit work programme.

Decision

To note the external audit fee for 2010/11 and the discussions that will need to take place between the auditors and the Council's officers about the content of the audit programme to be commissioned against this fee level.

AC/10/22 Interim Accounts

A report of the Council's auditors (Grant Thornton) was submitted on the Council's interim accounts for 2009/10. The report indicated that there had been significantly improved coverage during the year by Internal Audit and that greater reliance could

be placed on the reports that had been produced for the purposes of the external audit of the accounts. Additionally improved reporting and accounting processes had provided data that was more easily interpreted than previously and general good progress across the piece provided improved levels of assurance.

Discussion ensued about the identification of an individual payment of £420k in respect of which the auditors had expressed concerns about the robustness of the audit trail. Whilst it was accepted that it was not the role of the Audit Committee to challenge the payment, the Committee was legitimately concerned to ensure that there were mechanisms in place that enabled an effective challenge to be made in the future, and it was suggested that Point 4 of the Action Plan needed to be strengthened to provide greater transparency as a lesson learned from this case. The Chair indicated that this was also a timely reminder of the need for the highest levels of probity and transparency in all inter-authority and partnership working, and of the importance of the Council being assured that the Combined Authority had sufficiently robust governance arrangements in place that would protect the interests of all constituent authorities.

Decision

1. To note the report.
2. To welcome the comments made that the Council's internal audit function is working well and that the auditors are able to place greater reliance on their work, and to extend congratulations to the head of Internal Audit and Risk Management and his staff for the work that has brought about this significant improvement.

AC/10/23 External Audit recommendations – quarterly monitoring report

The Committee received a report from the Assistant Chief Executive (Performance) on progress achieved in the implementation of action plans in response to previously reported recommendations from External Audit. The report highlighted the successful completion of many areas of work, and significant progress in most others.

In welcoming the report the Chair made reference to the corporate dashboard of high level performance indicators across the Council, and she suggested that this could usefully form the basis of a useful report to the Committee as a further means by which the Committee could be reassured about the overall level of performance.

Reference was made to the recent Government announcement regarding the ringfencing of grants, and members asked the officers to outline the implications which this decision presented for the Council. Members were particularly concerned in relation to the potential areas of risk associated with joint working with health partners in the context of the budget challenges facing primary care trusts. Officers acknowledged these risks, however, the details of the grants decision were still awaited, and it was anticipated that the outcome may in part be one that simplified current processes.

Decision

To welcome the report and the significant progress made in many areas of work; to agree to the removal from the reporting schedule of those items that are complete, and to endorse the future reporting arrangements outlined in the report.

(Councillor Swannick declared a prejudicial interest as a board member of the Primary Care Trust, and withdrew from the meeting during consideration of this section of the report.)

AC/10/24 Treasury Management Annual Report

A report of the City Treasurer was submitted on the implementation of the Treasury Management Strategy in 2009/10.

Officers indicated that 2009-10 the major emphasis had been on mitigating risk by giving preference to security and liquidity at a time when the world banking system was still under stress and pending the issue, later in 2009, of new CIPFA and statutory guidance on investing. In turn this had resulted in more of the investment portfolio being moved into investment instruments with lower rates of return but higher security and liquidity. In order to balance the impact of the loss in investment income, there was a major re-evaluation of the benefits of new borrowing, whereby significant treasury management savings could be achieved by running down investment balances instead of taking new borrowing in order to finance new capital expenditure or to replace debt maturing during the year. Whilst this provided savings during 2009-10 in terms of debt management costs, the Council needed to be mindful of both interest rate risk and refinancing risk moving forward, in the event that interest rates start to rise.

Members supported the strategy anchored in using cash resources so as to keep borrowing to a minimum. Officers reported on the indicators from HM Treasury regarding long term borrowing rate predictions and how these were being interpreted in the context of the continuing approach to treasury management by the Council.

Decision

To welcome the report; to endorse the strategic approach being pursued, and to congratulate all the officers involved for the achievement of significant financial advantages to the Council.

C/10/25 Information Security Review IT Governance Review SAP System Utilisation and Effectiveness Review

Reports were submitted by Grant Thornton on the outcome of their reviews of these activity areas.

Consideration of each of the reviews involved consideration of Information about the development of a range of IT strategies, which sought to present a comprehensive

picture of activity across the piece, and the Committee separated out these elements of the various reports for specific consideration.

Although each report suggested a direction of travel with positive progress being made, the Committee did not feel sufficiently assured that the various elements of IT work were sufficiently joined up. It was decided therefore to hold a special meeting and to request a report from the officers that presented a comprehensive overview of the various elements of work being undertaken that would provide the Committee with greater assurance of the strategic coherence of this work.

Officers said that they would welcome this opportunity to showcase the work that was in progress against a fast moving agenda, and to demonstrate to the Committee how the development work to safeguard the Council's IT estate had been progressed in tandem with the huge project to establish the First Street base.

The Council's auditors also accepted that a great deal of valuable work was being done that demonstrated good practice and travel in the right direction, although there were still legacy issues that required further work to create a sound framework of governance. Whilst the auditors considered that the Council had a clear vision about where it wanted to be, greater clarity was necessary about how quickly that vision could be delivered, and they proposed to bring a further review report forward after 6 months.

In terms of IT Governance it was acknowledged that high level arrangements were in place in an area that had historically been weak, these arrangements would strengthen corporate arrangements. Some reservations were expressed by the auditors about whether the timescales were fully achievable particularly given the difficulty likely to be experienced in recruiting people with the specialist skills necessary to take this work forward. The Council's officers acknowledged this challenge, the Strategic Director for Transformation outlined the approaches made in relation to the recruitment of skilled staff, acknowledging the struggle to recruit at very senior and specialist levels in a market dominated by the commercial sector, and highlighting the likelihood that the Council may need to have recourse to outsource some specialist contracts, especially in relation to security systems architecture, in the short to medium term because of the difficulty in securing the specialist skills required.

Members sought guidance from the auditors about Manchester's performance by comparison with other authorities. In responding the auditors highlighted the difficulty in making absolute comparisons because local authorities were evenly split between in-house provision and out-sourcing. Some authorities were at a more advanced stage with IT development but few were dealing with the same legacy challenges or as ambitious a programme of development as Manchester was.

Decision

1. To note the reports, to welcome the range of initiatives being worked upon.
2. To agree to hold a special meeting to consider a report from the officers presenting a comprehensive overview of the various elements of work being

undertaken to provide the Committee with greater assurance of the strategic coherence of this work.

**AC/10/26 Internal Audit Annual Report 2009/10
and Internal Audit Plan 2010/11**

A report of the City Treasurer and Head of Internal Audit and Risk Management was submitted that provided a summary outturn report of the work of the Internal Audit Section between April 2009 and March 2010. The report described delivery against the Section's Annual Audit Plan and included resourcing information.

In tandem with this report the officers presented the Internal Audit Plan for 2010/11 which outlined the proposed areas of coverage for the Council's Internal Audit Section in the year ahead. The plan was designed to support an annual opinion on the effectiveness of the systems of governance, risk management and internal control across the Council and would be informed by the audit strategy, consultation with stakeholders and a dynamic assessment of risks.

Following discussion at the previous meeting regarding safeguarding issues, the Head of Adult Services attended the meeting to outline to members work that was being done to improve compliance, in particular the development and implementation of an improvement plan to secure greater compliance with safeguarding reporting processes. Members welcomed the priority that continued to be given to this work.

A member was concerned to establish the risks and exposure in relation to joint enterprises between the Council and the Primary Care Trust given past situations where contracts had been withdrawn to enable the PCT to balance budgets. He asked what work should be included in the Audit Plan to ensure that safeguarding risks were properly expressed. The Director of Adult Services acknowledged the risk area arising from the pressures on PCT budgets at the present time, and the potential that the Council may need to respond to changing demands. Specifically the Council needed to ensure that any transfer of patients into community/locality care was fully backed by matched transfer funding.

Members then turned to focus on the audit of schools, officers advised the Committee that school audits were planned in the context of scheduled Ofsted inspections, but individual audits were also triggered by special circumstances or requests. Members highlighted the importance of assessing risks associated with the Government's encouragement for more schools to become academies and for full audits being completed prior to any such transfers.

Decision

1. To welcome the successful implementation of the 2009/10 audit plan.
2. To endorse the 2010/11 Internal Audit Plan and to request officers to present regular reports to enable the Committee to monitor progress towards its completion.

Councillor Trotman declared a personal interest as a Board member of Northwards Housing in relation to this report.

AC/10/27 Annual Review of System of Internal Audit

A report of the City Treasurer was submitted on the outcomes of the annual review of the system of internal audit to be considered as part of the Council's annual governance processes, including the preparation of the Annual Governance Statement. The report demonstrated that the Council had an effective system of internal audit, including a policy framework, internal audit function, Audit Committee and effective management engagement.

The Head of Internal audit and Risk Management reminded the Committee that the outcomes of the review reflected a more stable position in relation to staffing within internal audit, although some key posts remained to be filled management was significantly more comfortable with the staffing position overall. 200 individual reports had been produced during the year against the planned 140.

Decision

To welcome the report which provides the Committee with assurance as regards the effectiveness of the Council's internal audit function.

AC/10/28 Annual Governance Statement

The Committee considered a joint report of the Chief Executive, City Treasurer and City Solicitor. The report had already been considered in detail by the Resources and Governance Overview and Scrutiny Committee's Governance Sub Group on 1st June 2010, and the Committee had the benefit of reading the minutes from that meeting and noting the issues raised by that Committee

Decision

To note the findings of the Resources and Governance Overview and Scrutiny Committee's Governance Sub Group, and to endorse the Annual Governance Statement.

AC/10/29 Committee dates

Decision

1. To change the date of the special meeting to consider the 2009/2010 Annual Accounts from Tuesday 29th June to Thursday 24th June at 2.00pm.
2. In view of the clash of commitments of several members who are also members of the Planning and Highways Committee, to agree to change the dates of the meetings in January 2011 from 20th to 27th January and in March 2011 from 17th to 24th March 2011.