

Audit Committee

Minutes of the meeting held on 24th September 2009

Present: Councillor Watson – In the Chair
Councillors Clayton, Lomax, Morrison, Trotman and Swannick.
Mr Andrew Caldwell and Mr John Tench – Independent Members.

Also Present:

Councillor Priest – Executive Member for Finance and Human Resources.
Councillor S. Newman – Executive Member for Children’s Services.
Sarah Howard, Gavin Blackstone and Negat Sultan, Grant Thornton.

AC/09/32 Minutes

Decision

To approve as a correct record the minutes of the meeting held on 25th June 2009.

AC/09/33 Review of external audit recommendations

The Committee considered the quarterly report of the Assistant Chief Executive (Performance) on the implementation of outstanding recommendations from external audit work across the authority; by the Audit Commission, and by Grant Thornton over the previous three-year period.

Members were unhappy with the pace of progress in relation to a number of recommendations, some of which were two years old, and questioned the extent to which the Council was being exposed to unnecessary risk. In particular, members highlighted the delays in improving staff resources to support the management of risk despite approval having been given to additional recruitment. Officers reported that it was anticipated that the staff would be in place in January 2010.

The Chair was concerned that whilst action had been reported on four occasions regarding the recommendations made about the financial impacts of the relocation of Children’s Services multi agency teams and the performance assessment of such teams, against an original completion date of March 2008 there remained no indication of when this work would be brought to a conclusion. The Committee accepted an apology from the Director of Children’s Services who advised that lack of progress was the result of the proposals being no longer pursued as originally proposed, and that these items should have been deleted from the report.

Decision

To note the progress being made, to indicate to the officers that the Committee remains concerned about the overall rate of that progress, especially in terms of the six outstanding recommendations in relation to risk management.

AC/09/34 Sovereign Risk

A report of the City Treasurer and Head of Internal Audit and Risk Management was submitted outlining the ways in which sovereign risks may be considered within the context of the corporate approach to risk management and the Corporate Risk Register.

The concept of corporate risk is taken to be those risks at a national or international level that affect the Country as a whole but nevertheless bring localised consequences for Manchester in general and the council and its partners in particular. The main areas of concern that may constitute sovereign risk are risks emanating from the actions or inaction of national or other international governments (for example, the EU or USA); Acts of God; terrorism; and civil unrest.

The Committee noted the view of officers that the approach taken within the Council was to scan the horizon both externally and internally and to attempt to identify the key areas within which it is exposed to the highest levels of risk over which it can exert some degree of mitigating action. This included an acceptance that the identification of risks where there is no effective control has limited use and that there is more value in identifying issues that emerge that are symptomatic of events within the external environment over which control may be exerted.

Members indicated that they were comfortable with the approach being taken to sovereign risk, though it was accepted that risk management processes needed to be sharper as economic pressures impacted on the public sector. The power of governments to make changes was accepted as an integral part of the democratic process in response to which the Council needed to have appropriate and responsive measures in place to identify and mitigate against potential risks.

Decision

To note the report and agree to return to look at the overall position regarding the corporate roll-out of risk management practices and the extent to which these are embedded in the Council business planning structures, so as to enable the Committee to be assured about the capacity of the Council to respond as effectively as possible to risks that cannot be managed out.

AC/09/35 Quarterly Internal Assurance Report 2009/10

Consideration was given to a report of the City Treasurer and Head of Internal Audit and Risk Management that provided the Committee with an internal audit assurance statement for the period 1 April to 15 September 2009.

Members highlighted concerns about the audit reviews to provide assurance over the Council's arrangements for children missing from education. The Director of Children's Services indicated that the safeguarding and protection of children was one of the key drivers of the Education Service re-design, and whilst temporary arrangements currently anchored this work as part of the school admissions function, longer term proposals would strengthen resources to address key risks in this area of work and engage with other key agencies involved in this field of work. The Committee was reassured by this response and also by the auditors' assessment

that there was clear capacity to improve. Reference was also made to the importance of directing resources to supporting schools that are due to close to provide assistance in the finalisation of their accounts.

A member referred to recent action by the Competition Commission to fine construction companies found guilty of price rigging tenders and asked whether internal audit processes were sufficiently robust to identify if this was happening so far as Council let contracts were concerned, specifically concern was expressed about the Council's vulnerability in relation to the Town Hall project. The City Treasurer indicated that none of the companies identified by the Competition Commission were local and there was no evidence at this stage that there was any contractual relationship between any of these companies and the Council. So far as the Town Hall Project was concerned members could be reassured that all contracts would be let through the rigorous Framework Contract process. The external auditors also indicated that these contracts would be subject to careful scrutiny as part of the external audit process.

Members also highlighted high and major risk areas identified in previous audit recommendations that remained outstanding. A revised schedule was produced that identified progress being made in each of these areas which provided the Committee with a measure of reassurance, but the Chair indicated that regular reports should be presented that enabled the Committee to properly monitor progress. Concerns were also registered about the progress of work in relation to ICT.

Decision

To note the report subject to the foregoing comments.

AC/09/36 Internal Audit progress update

The City Treasurer and Head of Internal Audit and Risk Management submitted a report detailing continued progress in the delivery of the Council's 2009/2010 audit plan for the period 1 April to 15 September 2009.

A member indicated that future reports should not only catalogue work done but also look ahead to give an indication of whether the whole Plan would be delivered or if the Plan itself needed to adapt to emerging issues. The Chair shared the view that the Audit Plan should be responsive to changes and the influence of key reports by the Audit Commission and other inspection agencies that directly impact on the Audit Plan.

Decision

To note the report.

AC/09/38 Sector Treasury Management briefing

The Committee noted that arrangements had been made for a Committee briefing on Tuesday 17 November 2009.

AC/09/39 Annual Report to those charged with Governance

A report by Grant Thornton, the Council's auditors was submitted on the audit of the 2008/2009 accounts. The auditors commended the authority on the efficient production of the annual accounts and outlined the key messages arising from their review of the Council's financial statements:

- the Council had prepared a good set of financial statements and accompanying working papers, presented on an innovative electronic database, which allowed the audit to progress smoothly;
- the Council is in a healthy financial position to deal with the expected challenges of reduced local government funding from 2011 onwards, with £26.3m general fund balances and £143m (including schools balances of £24.2m) earmarked reserves. The Council's treasury management arrangements are well developed and provide a balance between maximising returns on investment whilst managing the risk; and
- the audit identified a number of adjustments that had no effect on the general fund reserve balance but increased the Council's Income and Expenditure account deficit by £92.7m. This change is as a result of (a) additional impairment on a school revaluation (£11.2m) (b) capital grants on non depreciating assets being written off in a prior year rather than 2008/09 (£78.5m); and (c) adjustment to the major repairs allowance following a late notification of a funding change (£4.8m) partly offset by the write off of additional capital lottery grant to the income and expenditure account (£1.8m).

The clarification of the late government funding change referred to above has led to an increase in the Housing Revenue Account Reserve of £160k.

The Committee was reassured that Grant Thornton anticipated providing an unqualified audit opinion on the Council's financial statements, following approval of the accounts by the Audit Committee on 24th September 2009.

Members made reference to the 'trifling' and 'non-trifling' variations in the final accounts, whilst they felt assured that there were effective control mechanisms in place to deal with these variations it was suggested that future audit plans should more fully describe how these adjustments were dealt with.

Decision

To welcome the report.

Decision taken under delegated powers

AC/09/40 Annual Accounts 2008/2009 and draft Letter of Representation

Consideration was given to a report of the City Treasurer informing the Committee of adjustments to the annual accounts for 2008/2009 and seeking approval and acknowledgement of the letter of representation.

The Committee noted that there were considerably fewer adjustments to the 2008/2009 accounts than there were to the previous year's accounts and that a number of the adjustments were as a result of updated information, however some were the result of errors and it was noted that further procedures were to be put in place during the 2009/2010 accounts process to try and eliminate these errors.

Decision

1. To agree the amendments made to the annual accounts and to approve and acknowledge the letter of representation.
2. To authorise the Chair to sign off the Annual Accounts for 2008/2009.
3. To congratulate the staff concerned in the finalisation of the Council's accounts and the huge improvement made in the reduced scale of adjustments made this year compared to previous years as acknowledged by the Council's auditors.