

## **Audit Committee**

### **Minutes of the meeting held on Tuesday, 15 June 2021**

**Present:** Councillor Ahmed Ali – in the Chair

**Councillors:** Clay, Lanchbury, Russell and Downs

**Independent Co-opted member:** Dr S Downs

**Also Present:**

Councillor Craig (Deputy Leader)

Karen Murray (Mazars) - External Auditor

**Apologies:**

Dr D Barker (Independent Co-opted Member)

#### **AC/20/10. Minutes**

##### **Decision**

To approve the minutes of the meeting held on 16 March 2021 as a correct record.

#### **AC/20/11. Draft Annual Governance Statement**

The Committee considered a report of the Deputy Chief Executive and City Treasurer which set out the draft 2020/21 Annual Governance Statement (AGS), which had been produced following completion of the annual review of the Council's governance arrangements and systems of internal control.

For 2020/21, a desktop review of the AGS process had been carried out to identify improvements and efficiencies. A review of good practice had also been undertaken, including comparison with peer authorities. As a result improvements had been identified and implemented with the use of a more concise document template now being used to enable a clearer focus on a high-level summary of the strategic oversight of improvements. The report re-emphasised the Council's commitment to improve transparency of its governance arrangements by ensuring that both the Statement itself and the explanation of the arrangements within it were clear, concise and written in plain, clear language in order to make it as accessible as possible for the lay reader.

The processes that had been followed to produce the draft Statement were outlined in the report and the Committee was asked to note the findings of the 2020/21 AGS as well as the actions proposed to further develop or strengthen elements of the Council's governance arrangements during 2021/22.

The Committee welcomed the draft with particular emphasis to the clear and concise nature of the explanations, which were deemed very helpful.

## **Decision**

To note the draft Annual Governance Statement.

### **AC/20/12. Head of Audit and Risk Management Annual Opinion**

In accordance with Public Sector Internal Audit Standard 2450, the Committee considered the report of the Head of Audit and Risk Management which presented the annual internal audit opinion on adequacy, effectiveness and delivery of the programme of audit work designed to raise standards of governance, risk management and internal control across the Council over the last year. This included a summary outturn of the work of the Internal Audit Section for the 12 months April 2020 to March 2021.

The report outlined a discussion within the sector regarding the ability within the sector to undertake sufficient internal audit work and produce a reliable independent assurance assessment under current circumstances. As a result, revised guidance had been issued by Chartered Institute of Public Finance and Accountancy (CIPFA) on the form the opinion may take. The report explained that whilst an opinion on the adequacy and effectiveness of the organisation's framework of governance, risk management and control had been issued for 2020/21, the impact of the Covid19 pandemic on public services over this period had been considerable and had resulted in significant change to planned priorities in order to focus resources on those critical activities essential to the pandemic response and recovery. As a result, the Head of Audit and Risk Management's approach had been to obtain sufficient assurance to support the annual opinion, considering both internal audit work and other sources of assurance which were outlined in the report.

The Head of Audit and Risk Management provided an opinion of reasonable assurance that the Council's governance, risk and control framework was generally sound and operated reasonably consistently in the year. This was an equivalent opinion to that issued in the previous four years and reflected that overall governance, financial management arrangements and core systems and processes within the Council remained effective despite the myriad of challenges presented by the pandemic. The strength of core governance, risk and control systems and the capability, commitment and agility of the workforce and leadership had been a key factor in enabling deviation from standard ways of working and in providing an effective response and recovery approach during the year. However, risks and issues remained in light of the ongoing pandemic and financial challenges to planned delivery of organisational priorities and strategies as well as backlogs in some core business processes. Those risks would be recognised in recovery and transformation priorities including the Future Shape Programme; as well as in budgets and business plans.

The Chair invited questions and comments from members of the Committee.

The Committee welcomed the issue of an opinion in the current climate. A Member commented that it was good to see that emergency contingency planning had been effective and asked whether any of those revised working practices would be carried forward to influence future practice. The Head of Audit and Risk Management spoke about the strong foundation of work done in previous years and the pace, speed and

agility required to work within the principles of good governance and the legal framework. This, he explained, had been reflected on as an organisation and had led to a changed focus on delivery involving greater collaboration across directorate and partnership working. He also said that use of virtual technology had been an important factor in maintaining the pace of delivery outcomes.

A Member sought assurance on the delivery of post payments of additional government grants and support schemes to businesses (including audit assurance). The Head of Audit and Risk Management expressed confidence in this due to the significant amount upfront activity that had taken place as part of mandatory requirements which lowered the error rate in the validation of payments.

With regard to the placement of Looked After Children, a Member welcomed the ongoing improvements towards greater efficiency and streamlining of core processes for Children's Placement Findings.

Turning to outstanding audit recommendations in respect of Transitions and Mental Health Casework, a Member sought assurance that progress had been made in these areas. It was reported that this matter was in hand and would soon be reported back to a future meeting of the committee.

A Member asked about the current impact and future implications of recent events on audit activity. The Head of Audit and Risk Management said that approximately 25% of formal audit days had been completed with the remainder spent on business grants and other pieces of assurance work. He said that there had been a year end evaluation of what had not been delivered together with an assessment of the associated risk /priority with some refocused activity rolled forward for completion this municipal year.

A Member asked for information on the establishment, composition and remit of the Commercial Board. Officers agreed to bring detailed information on delegations and lines of accountability to a future meeting of the committee.

With regard to the Civic Quarter Heat Network (CQHN) project and the forthcoming completion of the construction phase, a Member noted that recommendations for improvements in governance arrangements had been shared with the Commercial Board and asked if those recommendations could be shared with the Committee. The Head of Audit and Risk Management agreed to this.

## **Decisions**

1. To note the issue of the Head of Audit and Risk Management Annual Assurance Opinion in challenging circumstances.
2. To request that an overview of the function, role and remit of the Commercial Board (Procurement, Contracts and Commissioning) is circulated to Audit Committee members for information.

## **AC/20/13. Risk and Resilience Strategy and Risk Register**

The Committee considered a report of the Deputy Chief Executive and City Treasurer and the Head of Audit and Risk Management which presented information on organisational risk management arrangements. The Committee had received its annual update in relation to delivery of Risk and Resilience strategic priorities in October 2020. The report therefore presented a short update on risk management arrangements since the last report as well as an overview of cross-cutting and strategic risks currently being monitored and managed by the Senior Management Team.

The Chair invited Members of the Committee ask questions and comment on the report.

Members noted the overall picture that ten risks had reduced in score and none had increased but were also mindful that the timing of the refresh did not reflect the current COVID infection rate in the city and its associated impact on delivery.

There was a discussion about the reported reduction in risk associated with medium term financial resources. A Member noted that concern about the Council's financial status had previously been reported by the external auditors and sought assurances around the reduction in risk. The External Auditor explained that that opinion had been issued in November 2020 when there was greater uncertainty around funding settlements as notifications from central government are issued at different points of the municipal year. She confirmed that following budget setting there was now increased confidence about the Council's ability to meet its financial commitments and acknowledged the organisation's strong track record of identifying and addressing challenges due its robust governance arrangements.

As a point of clarification the Committee was invited to note that the identified risk associated with the loss of access to ICT had reduced its rating from 12 to 8 (medium).

### **Decision**

To note the report.

### **AC/20/14. Annual Audit Letter - Year Ending 31 March 2020 - Council External Auditor**

The Committee considered the Annual Audit letter for the year ended 31 March 2020 which summarise the work undertaken as the external auditor for Manchester City Council (the Council).

In line with the Local Audit and Accountability Act (2014) and the Code of Audit Practice issued by the National Audit Office (NAO), the Audit Letter set out key findings arising from audit activity in the following areas:

- Audit of Financial Statements
- Other information published alongside by the audited Financial Statements
- Value for Money Conclusion
- Reporting to the Group Auditor; and

- Statutory Reporting

The Letter also provided information on the increased fees for additional work undertaken as the Council Auditor around valuations and pensions liability and outlined the implications of recent changes to the Code of Audit Practice (April 2020) in relation to the Value for Money arrangements for the 2020/21 municipal year. It also made reference to the impact of the recent Redmond Review.

Karen Murray (Mazars) introduced the Letter explaining that, under usual circumstances, the findings would conclude the audit work undertaken for the 2019/20 municipal year however this had been delayed. Mazars had yet to conclude their work on the Council's Whole of Government Accounts return due to difficulties with the system that had recently been implemented. As a consequence, the Council had not yet been able to finalise its return due to a number of queries and was awaiting a response from the Treasury. However, Mazars were generally satisfied that proper arrangements were in place.

The Chair invited Members of the Committee ask questions / comment on the Letter.

On seeking assurances around the Council being unable to finalise Whole of Government accounts on time, Ms Murray indicated that the likelihood of penalties was very low since a number of Local Authorities had reported technical difficulties of a similar nature with the new system. She added that Mazar's had confidence in the Authority's position such that the return would be ready for sign off as soon as those technical difficulties were resolved. She explained that the report was largely a repeat of the Audit Completion report that was submitted to the Committee's November 2020 meeting in respect of issuing the Audit Opinion and the Value for Money Conclusion.

The Committee asked about the implications of the recent changes to the Code of Audit Practice. Ms Murray explained that in essence it represented a shift from the binary conclusion to determine whether or not proper arrangements had been put in place. She summarised the change in the Code as meaning that the external auditor will no longer provide a Value for Money conclusion and would instead provide a commentary which sets out all of the work undertaken over the course of the year provides a view on overall arrangements for delivering value for money. From the 2020/21 municipal year onwards, where a significant weakness in value for money arrangements had been identified, auditors would be required to quickly notify Local Authorities of those weaknesses and provide a series of actions to address those weaknesses. Ms Murray confirmed that Mazars remained generally satisfied that proper arrangements are in place based on the work done so far but that this was continuously under review.

There was a discussion about the implications of the Redmond Review and reference to the proposal to create the Office of Local Audit and Regulation (OLAR), which was subsequently rejected by MHCLG . Ms Murray explained that the intention behind OLAR would have been to coordinate and regulate audit practices and achieve better coordination of what is expected, when and by whom to meet the challenges within the sector. The Committee noted that the matter was currently under consultation for another body as wider government reforms of the audit market.

## Decisions

To note the report.

### **AC/20/15. Audit Strategy Memorandum - Year Ended 31 March 2021**

The Committee considered the Council's External Auditors (Mazars) Audit Strategy Memorandum for the year ended 31 March 2021.

The document provided information on

- The audit scope (including group audit), approach and timeline
- Significant risks and key judgement areas
- The extended auditors report; and
- Value for Money

The document discussed national timescales for 2020/21 requiring the Council to produce their draft Group accounts by the end of July 2021 and for the audit to be completed by the end of September 2021, effectively two months earlier than the deadlines agreed for 2019/20.

Mazar's asserted that this timescale would be extremely challenging, particularly given the complexity of the Council's financial statements, the related complexity of their own external audit processes, and the pressure this placed on the Council's finance team to deliver draft financial statements and supporting working papers within the allocated timeframe. On that basis, Mazar's had resolved to complete the Council's audit by November 2021 therefore allowing the Council two additional months to produce the draft Group financial statements and supporting working papers to enable completion of the audit in a well managed and deliverable manner.

The main challenges to meeting the September 2021 timetable were described as:

- The size, number and complexity of the valuations of Council and Group land & buildings and investment properties – this was an area of significant difficulty in 2019/20, and the audit work requires significant information, and assistance, from the Council's three external valuers. The previous year's completion report recommended improvements in the audit trail from the Council's valuers to support the valuations. As a result, Mazar's planned to commence detailed audit activity in that area in July, in advance of the rest of the audit work in order to mitigate the risk of delays in completing the work.
- Completion of audit work by the auditor of GM Pension Fund – Mazar's obtained assurances from the auditor of GMPF on several areas relating to the Council's pension asset and liability. The GMPF audit is planned to be completed by the end of July and at this stage we do not anticipate any delays impacting on the Council's audit completion.
- The timetable does require the Council's draft accounts and working papers to be available for the start of our audit. We have planned our main audit work to

commence at the start of September to ensure that sufficient contingency is inbuilt.

Ms Murray said that the Committee would receive a further report in November 2021 which would explain the work that had taken place.

The Committee sought assurances concerning the risk of penalties in not keeping to the national timetable. Ms Murray confirmed that Mazar's were not aware of any sanctions that would apply for the submission of a late Audit opinion. She explained that the new deadline had been set by the Ministry of Housing, Communities and Local Government (MHCLG) following a consultation in which there had been unanimous supplier concern about the ability to attain a managed position in bringing the timescale forward. She added that in issuing a late opinion she was both confident of achieving a managed situation and the ability to issue in November 2021. Mazar's would work with the Council's Finance team to explain to MHCLG that the opinion was underway but not yet complete and that the complexity of the Council's finances was at the heart of the issue and stressed the importance of doing the right work at the right time for the avoidance of risk.

## **Decision**

1. To note the report and in doing so, note that the external audit opinion will be submitted in November 2021.
2. To note that a further report on audit activity undertaken by Mazar's will be submitted to the Committee's November 2021 meeting.

## **AC/20/16. Register of Significant Partnerships**

The Committee considered a report of the Deputy Chief Executive and City Treasurer which provided an overview of the Register of Significant Partnerships in 2020. The report outlined the review and assurance process which had been conducted as part of the annual review. The report focused on the following key areas:

- Any new partnerships which have been added to the Register
- entries recommended for removal
- where the governance strength rating has changed following the introduction of the new four level ratings system
- any partnerships now classed as 'Reasonable' or 'Limited' strength following completion of the latest self-assessment.

The report stated that no new entries had been proposed for 2020; three however were proposed for removal due to either inactivity or in the process of being closed.

Members noted that the majority of partnership were ranked as 'substantial' or 'reasonable and welcomed this. There was a discussion about the ratings for health and social care partnerships which were determined as 'reasonable'. A Member stressed the importance of ensuring that despite the reasonable rating, such partnerships were kept at the forefront of audit and monitoring activity due to the nature of their work. Officers acknowledged this and confirmed that these would form

part of internal audit actions to provide continued assurance to members and health colleagues.

A Member sought more information about the potential insolvency of National Car Parks Manchester Limited and suggested that the partnership should not be removed from the Register until work around consolidation of the account had been finalised. The Head of PMO: Commercial Governance & Directorate Support agreed to circulate additional information on financial aspects outside of the meeting and assured the Committee there were no potential implications for the Council. Officers agreed to keep the item on the Register until all had been finalised.

There was a discussion about the proposed removal of Northwards from the Register. A Member suggested that this partnership should not be removed until all aspects, including the transfer of staff and assurances around service provision for tenants had been finalised. Officers agreed to this.

A Member expressed surprise that no new partnerships being added for the year. The Head of PMO: Commercial Governance & Directorate Support confirmed that nothing had been brought forward for inclusion by the Senior Management Team. However, she also said that there was potential for some further partnerships to be added in a 6 month review. She added that under usual circumstances the review focussed on reasonable or limited partnerships, but this could be extended to include new partnerships as well as updates on those proposed for removal.

There was a discussion about the Manchester International Festival and The Factory and whether this could become a future partnership. Officers acknowledged the interdependencies and the overarching governance arrangements which encompassed both entities. They agreed to bring provide a comprehensive update to the Committee in November 2021.

Noting that a number of recommendations had been made by the Committee in today's meeting, a Member suggested the introduction of a monitor that sits alongside the Committees Work Programme to track the progress /implementation of it decisions. The Head of Audit and Risk Management agreed to collaborate with the Committee Officer to progress this.

## **Decisions**

1. To note the report
2. To agree to the development of a decisions monitor that sits alongside the committee's work programme to track the progress of decisions made and their associated outcomes.