

Audit Committee

Minutes of the meeting held on Tuesday, 30 July 2019

Present: Councillor Ahmed Ali (Chair)

Councillors: Clay, Lanchbury, Russell, Stanton, Watson, Barker and Downs

Also Present:

Councillor Ollerhead – Executive Member Finance and Human Resources

Karen Murray, Mazars (external auditor)

Stephen Nixon, Mazars (external auditor)

AC/19/33. Minutes

Decision

To approve the minutes of the meeting held on 11 June 2019 as a correct record.

AC/19/34. Annual Statement of Accounts

Members considered the report of the Deputy Chief Executive and City Treasurer which sought Members approval of the revised accounts containing the amendments detailed in the report and to seek approval and acknowledgement of the letter of representation. These accounts were updated from those reported to the June Committee and took account of any changes that have arisen since that time including the findings of external audit.

The Committee received a paper containing revised changes to the Group Accounts. The changes would be subject to consideration by the external auditors before the opinion on the annual account was released.

The Deputy Chief Executive and City Treasurer made a statement to the Committee regarding the annual accounts. The Committee was informed that nationally there have been some changes to how local authority external audits have been completed, this has included:

- The accelerated timescale for completing the audited accounts deadline set for 31 July.
- The Financial Reporting Council requirement for external audit firms to focus on areas where there are judgements and estimates, e.g. asset valuations and the additional assurance being sought in this area.
- The 'McCloud judgement', which led to all local authorities having to get their accounting position for the pension fund (IAS19) recalculated at additional cost to take into account a potential additional liability relating to an age discrimination issue on the transitional arrangements in the judges and fire service pension scheme. The LGPS is outside of this ruling but may be impacted in the future so an estimate of the additional liability was required. This has resulted in additional

work. With reference to the Council's accounts, this was not material and the accounts have not been adjusted.

Reference was made to a reduced capacity within external audit firms following the recent tender exercise and associated reduced fee. This reduction has impacted on a lot of local authorities and has been reported nationally.

Locally this had translated into:

- Changes to IAS19 (reporting on employee benefits) - these are not material and no adjustment has to be made.
- The Council's external auditors have had to significantly increase the sample size for valuations. This was notified later on in the audit and the work to review these has not been fully completed prior to the latest revised accounts being issued. In view of this, however, it is not believed there are any material issues outstanding, but this is subject to confirmation by the external auditors.
- With regard to the Group Accounts - there is also an issue with the land valuations carried out in respect of the airport assets. This does not impact on the council's or the airports bottom line position, although some adjustments were required and included a restatement of prior year figures. A further adjustment was made, after the revised accounts were issued and confirmation is required.

The Committee were informed that there has been a great deal of pressure on the Finance Team to complete the outstanding work in time for the Council to meet the deadline and thanks were given to the Council Finance Team and the External Auditors for their hard work and dedication.

The Chair invited questions from the Committee.

Members requested further explanation on:

- Pension liability (£21.1 million) to the Council.
- Accounting for valuations of Airport and Convention Centre land

Officers reported that the £21.1 million pension liability is a non-material and notional figure used for accounting purposes and is an estimate of potential future liability based on employer contribution to the pension funding scheme. The figure has not impact on the actual position of the pension fund or council accounts.

With reference to Airport and Convention Centre land it was reported that the figures presented in the Airport accounts for land and buildings is subject to an external valuation process to provide a notional 'far value' and bring the airport accounting process in line with the Council's as required by the Local Authority Accounting Code. This process had resulted in a change to the figure presented. The Council owns the freehold on the airport and convention centre land and accounts for this. The other items owned by the Airport and the Convention Centre are included within the Group Accounts.

Members thanked the Finance Team and the External Auditors for their hard work in the completion of the Council's annual accounts in view of the challenging deadline for their approval and publication.

The External Auditors informed the Committee that it was anticipated that there would be no further material issues to be considered and an opinion would be released, however it was necessary to complete the checks relating to the Group Account amendments. In addition, there were three issues outstanding relating to land and buildings valuations which were nearing completion.

Decisions

1. To note the amendments made to the annual accounts since they were reported to the Audit Committee in June.
2. Approve the revised annual accounts including the accounting policies contained within them.
3. Agree to not amend the pensions figures included in the accounts following the receipt of a revised IAS19 report as detailed in paragraph 17. This is below the materiality level.
4. Approve and acknowledge the letter of representation in Appendix 1, which will be signed by the Deputy Chief Executive and City Treasurer and the Chair of the Meeting.
5. To note the submission of the Group Account Amendments as at 30 July 2019 and that the amendments are subject to checking by the Council's external auditor.
6. To note that in the event of any material changes being identified from the external auditors outstanding work, it may be necessary to arrange a meeting of the committee to agree changes to the annual accounts.
7. To thank officers of the Finance Team and the External Auditors for their work in the preparation and audit of the Council's Annual Accounts.

AC/19/35. Audit Findings

Members considered the report of External Auditor that set out the findings of the audit of Manchester City Council for the year ending 31 March 2019.

The external auditors thanked officers for their support during the production of the annual accounts. The committee was informed that the submission of Group Account Amendments would be checked before the release of an opinion on the annual accounts. It was reported that an unqualified conclusion would be released in respect of the Value for Money Conclusion.

The Chair invited questions from the Committee.

Members referred to Internal Control Recommendations within the report in particular:

1. the recommendation requiring Members and senior officers making an annual declaration of their interests; and
2. tighter control of the high number of privileged access rights to critical systems and data.
3. The setting of the Council's level of materiality set.

The external auditor explained that the recommendation regarding the declaration of interests is considered good practice for those parties within the council involved with decision making and the bodies they are involved with that may be in receipt of council funding. In making the recommendation for a tighter control of privileged access to critical information it had been noted that the Council is a large organisation and reducing the 112 active users would be difficult. The committee was informed that the level of materiality had been set by the external auditor between at a level of 1%-2% and the council's level has been set at 1.75%.

A member asked that in view of the new process that has been introduced, what actions would be taken to amend the current accounting process and timescales for next year to avoid the issues that have been encountered this year.

The City Treasurer reported that a lessons learned process will take place to identify the issues and learning required to anticipate and plan for possible changes such as the recent McLeod ruling.

The external auditor reported that there would be a process of evaluation in order to plan for the next year, although not everything is foreseeable. Also, it was acknowledged that as the council's new external auditor there was learning process involved in understanding the council.

Decisions

1. To note the report.
2. To refer the internal recommendation regarding the declaration of interests by elected members and senior officers for consideration to the Standards Committee in respect of members and Personnel Committee in respect of senior officers.

AC/19/36. Internal Audit Assurance 2019/20

Members considered the report of the Deputy Chief Executive and City Treasurer and Head of Internal Audit and Risk Management which provided the Committee that provided a summary of the audit work undertaken and opinions issued in the period April to June 2019.

The Chair invited questions from the Committee.

A member expressed concern in respect of the limited assurance given to the Deprivation of Liberty Safeguards (DoLS) and the continued delay in the completion of DoLS assessments. Officers were asked for a report to update the Committee on the action being taken to address and improve the current arrangements. Reference was also made to the audit of Our Manchester Voluntary and Community Sector Grants and the partnership working arrangement with the Voluntary Sector and the Council. The point was made that the monitoring information from grant recipients is being provided to the Council however, it was not clear how this was being acted upon if an issue was identified. Officers were asked if the recommendations that had been made were sufficient to address this concern. Officers were also asked for an explanation why, in view of the arrangements in place, had the audit of the prevention and detection of procurement fraud received a moderate assurance.

The committee was informed that DoLS is a challenging area of service and the national average duration for the completion of an assessment is 138 days. At a local level the average assessment completion time is 130 days and the concerns raised on this situation had resulted in an audit. Members were informed that the audit work is a key element of the improvement plan for the service. The Committee would also have the opportunity to question the Executive Member for Adult Health and Wellbeing and the Director of Adult Services at the meeting of the Committee in October 2019. In respect of the concerns raised regarding Manchester Voluntary and Community Sector Grants, it was reported that the audit report on the service had identified the lack of feedback to the voluntary sector. The report recommendations were made to address this matter and improve consistency of recording contact with the organisations, actions taken and the support provided to recipients. In response to the concern raised regarding the prevention and detection of procurement fraud. It was reported that the moderate assurance related to the areas of improvement required to improve prevention and detection of fraud through reporting and utilising data and intelligence of records of individual procurement activity.

A member referred to the changes made to the report format and questioned the process followed in undertaking this and the reason for the delay in providing executive members with audit reports.

It was reported that the audit report format will provide an executive summary including an opinion to identify key issues, areas for improvement, the timeframe. It would not include the action plan. Members were informed that audit reports were circulated to the members of the senior management team in advance of executive members to provide time to read the reports and be aware of any issues raised.

Decisions

1. To note the report submitted.
2. To note the comments received.

AC/19/37. Outstanding Audit Recommendations

Members considered the report of the Deputy Chief Executive and City Treasurer and Head of Internal Audit and Risk Management that informed the Committee that in

accordance with Public Sector Internal Audit Standards the Head of Audit and Risk Management must “establish and maintain a system to monitor the disposition of results communicated to management; and a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action”. For Manchester City Council this system included reporting to directors and their management teams, Strategic Management Team, Executive Members and Audit Committee.

The report summarised the current implementation position and arrangements for monitoring and reporting internal and external audit recommendations.

Decision

1. To note the current process and position in respect of high priority Internal Audit recommendations.
2. To agree that the scheduled date of the committee on 17 September 2019 be used for training purposes for committee members and any business be rescheduled for submission to the meeting of the Committee on 15 October 2019.
3. To agree to request the Head of Internal Audit and Risk Management to circulate guidance on Contractor and Whistleblowing Arrangements to all members of the Committee for information.

AC/19/38. Risk Review Item

The Chair informed the committee that the item had been withdrawn from the agenda.

AC/19/39. Work Programme and Recommendations Monitor

The report of the Governance and Scrutiny Support Unit which contained responses to previous recommendations was submitted for comment. Members were also invited to agree the Committee’s future work programme.

The Deputy Chief Executive and City Treasurer reported that the Annual Local Government Ombudsman Compliant report would be scheduled on the Annual Work Programme.

Decisions

1. To agree the Work Programme subject to the above.
2. To note the Recommendation Monitor and the amendments proposed.