

## **Audit Committee**

### **Minutes of the meeting held on 28 July 2020**

**This Audit Committee meeting was conducted via Zoom, in accordance with the provisions of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020.**

#### **Present:**

Councillor Ahmed Ali - In the Chair  
Councillors Clay, Lanchbury, Russell, Stanton and Watson  
Independent Co-opted member: Dr S Downs

#### **Also Present:**

Karen Murray, Mazars (External Auditor)  
Alastair Newall, Mazars (External Auditor)

**Apologies:** Dr Barker, Independent Co-opted member

#### **AC/20/12     Minutes**

##### **Decision**

To approve the minutes of the meeting held on 10 March 2020 as a correct record.

#### **AC/20/13     Audit Progress Report**

The Committee considered the report of the Council's external auditors Mazars that provided an update on progress in delivering its responsibilities to the Council.

The Committee was informed that changes had been implemented since the start of the Covid19 pandemic with the introduction of remote working for both council audit staff and external audit staff. In addition the MHCLG had introduced changes to the timetable to complete the audit for 2019/20 by the end of November 2020. The audit of the draft accounts was commencing. The report also provided information on the progress of the audit and made reference to National Publications that may be of interest to the Committee relating to its governance role.

The Committee was informed on matters relating to impact of the pandemic on valuation of financial pension fund assets and uncertainty around the valuation of the Council's Property, Plant and Equipment, particularly where that valuation is based on market conditions. It was highlighted that the Council's valuer has reported that they did consider that there will be a material impact on the valuations for 2019/20. From the list of National Publications in the report the Committee was informed that a report would be submitted to a future meeting to reflect the impact of the changes resulting from the new National Audit Office Code of Practice.

It was reported that the audit of accounts would be completed before the November 2020 deadline.

The Chair invited questions from the Committee.

A member referred to the impact of Covid19 on the deadline for the audit and other areas such as the value of property, plant and equipment. The Committee was informed that Covid19 had delayed the deadline for the audit and it was anticipated that there would be an impact on future valuations.

## **Decisions**

The Committee noted the report and comments made.

### **AC/20/14 Treasury Management Outturn Report 2019-20**

The Committee considered the report of the Deputy Chief Executive and City Treasurer providing details of Treasury Management activities of the Council during 2019-20. The Deputy Chief Executive and City Treasurer introduced the report and provided an update regarding:

- Housing Investment Fund and the transfer to the GMCA;
- The Council's limited borrowing activities during the year;
- The Council's use of internal borrowing and holding short term cash and achieving a good rate;
- Short term borrowing in view of the current climate;
- The Council's submission as part of a consultation on the Public Works Loan Board (PWLB).

Thanks were given to the Treasury Management Team for its continued good work in view of the impact of the Covid19 pandemic.

## **Decision**

The Committee noted the report.

### **AC/20/15 Annual Accounts 2019/20**

The report of the Deputy Chief Executive and City Treasurer was submitted 2019/20 Annual Accounts, which have been signed by the Deputy Chief Executive and City Treasurer.

The City Treasurer introduced the report and informed the meeting that the accounts were in a relatively strong financial position with a small overspend identified, strong balance sheet and reserves. Following Covid19 and the lockdown, work had been undertaken by staff remotely to produce the accounts and their work in producing the accounts in such challenging circumstances was recognised. The group accounts had been delayed and circulated prior to the meeting.

The Committee received a presentation from the Deputy City Treasurer which provided:

- An accounts timetable which included public inspection until 10 September and audited accounts to the and the completion of the audit of the accounts by the end of November 2020.
- A Narrative Report providing details on the performance of the Council's strategic objectives.
- Net Revenue Budget 2019/20 – net revenue budget compared to outturn and key reasons for variations
- General Fund Revenue Outturn 2019/20
- Capital Outturn 2019/20 compared to budget, details of spend for key projects and summary of how capital expenditure was funded
- 2019/20 Key Variations on the budget
- Housing Revenue Account Outturn 2019/20
- Capital Outturn 2019/20
- Capital Spend and Financing 2019/20
- Effects of COVID 19 on 2019/20 Accounts
- Comprehensive Income and Expenditure Statement

The Chair invited questions from the Committee.

A member referred to the capital outturn and requested that this not be presented in presentations with the revised budget but instead with the original budget report to provide a more accurate picture of how the budget has performed. Officers were asked to explain the Council's debt position, what plan there is to use the capital reserves, and the position on loans to maturity and the interest paid per year.

The City Treasurer noted the point regarding the capital outturn and revised budget and explained that changes can take place regarding budget allocations. The point was also made that the interest rates on current loans are at a fixed rate. It was reported that the long term debt book relates to loans taken from 1991 onwards, with the majority of the debt being long term, and of this c. 90% is 10 years or more until maturity. Debt of c. £6m will mature by the end of the 2021/22 financial year and the majority of the remaining debt running until 2050 onwards. The rate of interest for individual debts is set at the market rate at the time of the loan and would have been considered the best value for money at that time.

A member referred to Notional Accounting Adjustments and asked officers to explain what this related to and the re-measurement of pensions referred to in the accounts. It was reported that Note 12 in the accounts provided an explanation of the adjustments which included such items as depreciation. The re-measurement of the pension figure is a notional adjustments and is based on actuarial assumptions including projections for life expectancy which for the first time in recent years had reduced.

A member referred to the use of the term 'vulnerable' and requested officers instead refer to 'vulnerable people' in future reports. Reference was also made to the strength of Manchester Communities in helping themselves and those part of the community that experience digital exclusion and the importance of engaging with

them.

The Committee was informed that the wording within the accounts would be examined to pick up the point raised regarding the strength of communities in relation to the work ongoing with the Our Manchester approach and digital inclusion.

A member stated that the Committee was aware and understood the difficulties in producing the annual accounts in view of the COVID 19 impact and the economic challenge to the City and the time that has taken to complete them.

A member referred to the Group Accounts and in particular the Manchester Airport Group (MAG) going concern note and the waivers in financial covenants. There was concern re the potential impact of the downturn in travel with different scenarios including a possible second peak. It was reported that MAG and the Council had carried out extensive due diligence and scenario planning and at the time of the meeting current position does not relate to the worst case scenario. As the covenants included a measure of debt to EBITDA it was inevitable the covenant would be breached but a lot of work has been carried out with the bondholders and other debtors. As with all businesses there remains a financial risk if there is a significant second spike in infections but MAG would not be alone in being severely impacted.

## **Decisions**

1. To note the unaudited 2019/20 Annual Account, signed by the Deputy Chief Executive and City Treasurer, including the narrative report.
2. To acknowledge the work of staff involved in the production of the Annual Accounts, in particular the circumstances under which they have had to work and that they be thanked on behalf of the Committee.

## **AC/20/16 Internal Audit Plan 2020/21**

The report of the Deputy Chief Executive and City Treasurer / Head of Audit and Risk Management was submitted. The Committee was advised that the Audit Plan had been developed to be represented with a greater level of assurance over plans to address gaps in staffing resources. It was reported the impact of Covid19 on the work of the Council had resulted in Internal Audit standing down the planned audit activity in order to minimise impact on services and personnel involved in the response. Work had then focussed on audit resource on advice and guidance for the management of urgent changes required to systems and processes and to help deliver new services required as part of the crisis response. Work postponed included actions to progress the service restructure, as management were required to focus fully on the response to the crisis. Other matters arising from the impact of Covid19 related to the procurement of PPE and the logistics of ensuring distribution and work on business rates and grants to help support businesses in Manchester. Other audit work has focused on cores services such as Adults and Children” Service and the impact on the Council’s budget position and reductions over the next year.

The Deputy Chief Executive and City Treasurer acknowledged the work of officers in

the Internal Audit and Risk Management Team and the additional time spent in supporting the Council's work in addressing the impact of Covid19. Reference was made to the Council's budget and the current process of budget scenarios and budget planning in view of the uncertainty of the future budget position.

The Chair invited questions from the Committee.

A member referred to the government's furlough scheme and asked what potential there was for fraud to be committed on support provided by the Council and how this would be identified and addressed. Reference was also made to re-instating safeguards in view of the pace of changes made at the start of Covid19 to ensure that staff are protected in particular through the use of IT systems.

It was reported that changes had been introduced to the process with additional controls put in place to identify fraud and audit officers were involved in consultation during the introduction of the support scheme. This included national reporting on patterns of fraud with monthly reporting to central government. In addition checks are made on spending decisions. Regular updates are also made to the Senior Management Team to highlight the risk of fraud across services. It was reported that safeguards are still in place and reference was made to the IT packages in place such as Microsoft 365 and additional cyber security measures.

A member referred to staffing levels and resources within the Internal Audit Team and the recruitment to the current structure to ensure audit work continues. Reference was also made to the passing of skills/knowledge to other non-audit staff regarding PPE in the event of a further outbreak to allow audit staff to focus on audit work. Officers were asked for a response on the updating the Audit Plan to ensure this and other actions would take place. Officers were also asked for an updated Risk Register to be submitted to the Committee to address risk within Children's Services and Adult Services.

It was reported the current staff resource position is a key priority and will be taken forward in consultation with Human Resources. Meetings would be taking place to examine the reallocation of responsibility to other non-audit staff in respect of PPE. Recruitment of additional audit staff would take place during the year and the Audit plan will be updated during August and submitted to the Audit Committee. It was reported that the Risk Register would be realigned to identify risks in core services (Children's Services and Adult Services).

A member referred to achieving best value and asked officers how plans will be amended in areas such as procurement, contract management and capital expenditure in view of future resource constraints for projects such as the Town Hall improvement scheme and the Waste Management Services Contract. The point was made that the financial stability of care homes is an additional risk to consider and what measures are in place.

It was reported that large contracts such as areas of health and social care is key focus and would be factored into planning, contract management and procurement. Other large schemes included the New Civic Quarter and the Northern Gateway would be included in the future planning. Assurance mapping would also be involved

in consideration of providers and the transition arrangements for exiting from the EU. With reference to care home stability it was reported that daily calls were made during the Covid19 crisis with those providers.

A member expressed concern on the inspections made on the properties provided for homeless adults and children. It was reported that assurances would be sought from the Director of Homelessness on the Council's statutory provision for the inspection of properties.

### **Decision**

To approve the Annual Internal Audit Plan for 2020/21 subject to the comments received.

### **AC/20/17 Head of Audit and Risk Management Annual Assurance Opinion and Report**

The Committee considered the report of the Head of Audit and Risk Management which provided the Head of Audit and Risk Management's annual assurance opinion and report on the Council's system of governance, risk management and internal control. The annual opinion of the Head of Audit and Risk Management's with a summary outturn of the work of the Internal Audit Section for the 12 months April 2019 to March 2020. Quarterly updates on progress, including assurance opinions and executive summaries of reports, have been provided to Audit Committee during the year.

The audit opinion focused on the year to March 2020 however, the events of the evident last six weeks of the year indicate that there would be likely significant implications for the UK in relation to the Coronavirus (Covid19) outbreak.

The Head of Audit and Risk Management provided a moderate assurance that the Council's governance, risk and control framework is generally sound and operated reasonably consistently in the year.

The Chair invited questions for the Committee.

Reference was made to paragraph 2.28 of the report and the Head of Risk Management was that in view of the number of limited and no assurance opinions listed on the table, what level of assurance would be given to Adult Services.

The Committee was advised that reporting on a directorate basis Adult Services could have a limited assurance on the basis of the audits carried out. It should be noted however, that the department had been open on the areas of concern identified and there had been a lot of subsequent work carried out to address these through new processes and procedures and through the resetting of the improvement plan work as the service moves forward through the past three months during the Covid outbreak.

A member referred to Adult Services and sought assurance that reports listed on the Audit Plan scheduled for the year would be completed and not lost during the year.

It was reported that officers would continue to follow up on all limited assurance opinions with work already taking place to address risk. This would be addressed in the Audit Monitoring Report.

A member referred to Executive Summaries and when members of the Committee would receive them. It was reported that the outstanding summaries would be circulated in time for the September meeting of the Committee as part of the Quarterly Assurance Update report.

A member referred to the way in which Adult Services had reacted to the Covid crisis and made the point that the process of planning by central government during this time could have been better. The reaction of the NHS and Local Authority to the crisis had been commendable and it would be difficult to reflect the individual efforts of staff within an audit opinion. It was therefore important to consider how much of a reactive service the Council should be.

It was noted that the response by the services for adult services and adult social care to the challenges of Covid19 on Manchester had been amazing. The point was made that a holistic review of services was required. It was noted that from the comments received three main themes had been picked up that areas relating to procurement, social care and homelessness will be included within the Audit Plan.

The Committee was advised that the Annual Accounts would be submitted to the October meeting of the Committee.

## **Decisions**

1. To note the report and the comments received.
2. To note and acknowledge the work of Council Adult Care and Adult Service staff and NHS staff in responding to the challenge of Covid19 for their dedication in ensuring services continued to be maintained.