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Coventry City Council

Agenda

Audit and Procurement Committee

Time and Date

3.00 pm on Monday, 25th January 2021

Place

This meeting will be held remotely. The meeting can be viewed live by pasting this link into your browser: <https://youtu.be/XBK3PlwPZ4k>

Public Business

1. **Apologies**
2. **Declarations of Interest**
3. **Minutes of Previous Meeting** (Pages 3 - 14)
To agree the minutes of the meeting held on 30th November 2020
4. **Exclusion of Press and Public**
To consider whether to exclude the press and public for the private item of business for the reasons shown in the report.
5. **Outstanding Issues** (Pages 15 - 20)
Report of the Director of Law and Governance
6. **Work Programme 2020/21** (Pages 21 - 22)
Report of the Director of Law and Governance
7. **Treasury Management Update** (Pages 23 - 30)
Report of the Director of Finance
8. **Quarter Three Internal Audit Progress Report 2020-21** (Pages 31 - 42)
Report of the Director of Finance
9. **Annual Fraud and Error Report 2019-20** (Pages 43 - 54)
Report of the Director of Finance

10. **Half Yearly Fraud and Error Report 2020-21** (Pages 55 - 64)
Report of the Director of Finance
11. **Any other items of public business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

Private business

12. **Half Yearly Fraud and Error Report 2020-21** (Pages 65 - 72)
Report of the Director of Finance
(Listing Officer: K Tyler, tel: 024 7697 2186)
13. **Any other items of private business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

Julie Newman, Director of Law and Governance, Council House, Coventry

Friday, 15 January 2021

Note: The person to contact about the agenda and documents for this meeting is Lara Knight / Michelle Salmon, Governance Services, Tel: 024 7697 2642 / 2643, Email: lara.knight@coventry.gov.uk / michelle.salmon@coventry.gov.uk

Membership:

Councillors M Ali, J Blundell, R Lakha (Chair), T Sawdon, B Singh (Deputy Chair) and R Singh

By Invitation:

Councillor R Brown (Cabinet Member for Strategic Finance and Resources)

If you require a British Sign Language interpreter for this meeting
OR if you would like this information in another format or language, please contact us.

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Agenda Item 3

Coventry City Council

Minutes of the Meeting of the Audit and Procurement Committee held at 3.00 pm on Monday, 30 November 2020 (This meeting was held virtually)

Present:

Members: Councillor R Lakha (Chair)

Councillor M Ali

Councillor J Blundell

Councillor T Sawdon

Councillor B Singh (Deputy Chair)

Councillor R Singh

Other Member Present: Councillor R Brown, Cabinet Member for Strategic Finance and Resources

Employees (by service):

P Baggott, Finance

M Burn, Housing and Transformation

B Hastie, Director of Finance

P Jennings, Finance

L Knight, Law and Governance

S Chun Lam, Public Health

M Rose, Law and Governance

K Tyler, Finance

In attendance: A Sohal (Grant Thornton)
M Stocks (Grant Thornton)

Public Business

15. Declarations of Interest

There were no declarations of interest.

16. Minutes of Previous Meeting

The minutes of the meeting held on 19th October 2020 were agreed as a true record. There were no matters arising.

17. Exclusion of Press and Public

RESOLVED to exclude the press and public under Section 100(A)(4) of the Local Government Act 1972 relating to the private report in Minute 26 below headed 'Procurement and Commissioning Progress Report', on the grounds that the report involves the likely disclosure of information defined in Paragraph 3 of Schedule 12A of the Act, as it contains information relating to the financial and business affairs of a particular person (including the authority holding that information) and that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

18. Outstanding Issues

The Committee considered a report of the Director of Law and Governance which identified issues on which a further report/information had been requested or was outstanding, so that Members were aware of them and could manage their progress.

Appendix 1 to the report provided details of issues where a report back had been requested to a meeting, along with the anticipated date for consideration of the matter. Appendix 2 to the report provided details of items where information had been requested outside formal meetings, along with the date when this had been completed.

RESOLVED that the Audit and Procurement Committee notes the Outstanding Issues report.

19. Work Programme 2020/21

The Committee considered a report of the Director of Law and Governance, which set out the Work Programme of scheduled issues to be considered by the Committee during the 2020/21 municipal year.

RESOLVED that the Audit and Procurement Committee notes the Work Programme for 2020/21.

20. 2020/21 Second Quarter Financial Monitoring Report (to September 2020)

The Committee considered a report of the Director of Finance that detailed the forecast outturn position for revenue and capital expenditure and the Council's treasury management activity as at the end of September 2020. The report was also due to be considered by Cabinet at their meeting on 1st December 2020. Councillor Brown, Cabinet Member for Strategic Finance and Resources attended the meeting for the consideration of this item and spoke in support of the report.

The report indicated that the headline revenue forecast for 2020/21 was for net expenditure to be £36.3m (£28.2m at Quarter 1) over budget before the application of COVID-19 emergency funding for local government. After the use of this grant, the net over-spend was £3.5m (£6.7m at Quarter 1). At the same point in 2019/20 there was a projected balanced budget position.

The position included a very significant increase in forecast costs within Children's Services. The overall forecast over-spend in this area had risen by £5.3m over the quarter and now stood at £8.6m. An estimated £5.8m of this cost reflected higher looked after children numbers that had emerged following, and largely as a result of, conditions caused by the Covid pandemic. This level of activity represented a clear medium-term financial risk to the Council, and it was imperative that all appropriate interventions were identified to enable a sustainable financial position to be reached.

In other services and excluding the effects of Covid there were overspends in excess of £1m in each of Streetscene and Regulatory Services and Highways and Transportation.

The Council's capital spending was projected to be £249.0m and included major scheme expenditure which ranged from investment in to the A46 Link Road, Coventry Station Masterplan, Whitley South infrastructure, Public Realm, Secondary Schools expansion and the National Battery Plant. The impact of Covid had been relatively modest in terms of delays to progressing capital schemes and the Council was on track to exceed the high levels of programme spend achieved in 2019/20.

The report set out an explanation of the major forecast variances with further details being included in an appendix. Information was also provided on the Covid funding allocations received from the government.

In relation to Treasury Management, the report set out the current position for interest rates; long term (capital) borrowing; short term (temporary) borrowing and investments; external investments; and prudential indicators and the prudential code.

The Committee raised a number of issues including details on the Council's involvement in the A46 Link Road scheme; clarification about the Legal and Governance Services overspend; further details about the Legal Services agency costs; and the completion date of the St Mary's Guildhall Capital scheme in the context of whether the facility would be available for the City of Culture 2021. Members also enquired about the Government compensation scheme for local authorities.

RESOLVED that the Audit and Procurement Committee:

- 1) Having considered and noted the proposals in the report, made no recommendations to Cabinet.**
- 2) Agrees that Cabinet and the Committee be provided with clarification on the Legal and Governance Services overspend.**
- 3) Agrees that Members be updated as regards to the Legal Services agency costs and the completion date of the St Mary's Guildhall Capital Scheme.**
- 4) Requests that the information on the A46 Link Road Project, circulated in March 2020, to be sent to the Committee.**

21. Internal Audit Plan 2020-2021

The Committee considered a report of the Director of Finance concerning the draft Internal Audit Plan for 2020/21 to provide the Committee with the opportunity to express their views on the extent and nature of the planned coverage. A copy of the Plan was set out at an appendix to the report.

The draft Internal Audit Plan documented the outcome of the audit planning process for 2020/21 and provided a mechanism for allowing the Committee to discharge its responsibility to 'consider the Head of Internal Audit's Annual Report and Opinion and a summary of internal audit activities (actual and proposed) and

the level of assurance given within the Annual Governance statement incorporated in the Annual Accounts'. The report also enabled the Committee, as a key stakeholder of the Internal Audit Service, to comment on the content and scope of the proposed Internal Audit Plan.

The report set out the planning process for the plan. The draft plan was based on an allocation of priorities against the current level of audit resource available. The Committee were informed that the resources available for audit and corporate fraud work was 550 days which compared to 440 days in 2019-20.

Whilst there was an established methodology in place to determine the focus of audit resources, the Covid-19 pandemic had had a significant impact on both the audit planning process and determining audit priorities for 2020/2021. In summary, consultation on the audit plan for the forthcoming year would normally have commenced in March / April 2020. This was not achievable at this time given the Council's need to focus on its initial response to the pandemic. Equally, from the perspective of Internal Audit, given the level of uncertainty arising from Covid-19, it was clearly difficult to undertake a formal risk assessment and identify meaningful priorities at this stage. As a result, a more flexible approach to audit planning had been adopted for 2020/2021. This had allowed the Service to respond more appropriately to the needs of the Council at this time whilst still making some provision for "business as usual" audit work.

Whilst the Service had continued to respond flexibly during the year, it was now in a position to be clearer about the focus of audit priorities to both respond to new areas identified as a result of covid-19 and ensure that sufficient work was undertaken to inform the annual audit opinion. Where appropriate, an assessed risk level had been included in appendix one. Where the risk had been assessed as medium rather than high, this generally reflected the findings of previous audit reviews in the respective area / an initial assessment of the control environment.

The Committee were informed that a significant amount of resource has been allocated to covid-19 related assurance work. This had been assessed as a key risk area for 2020-21 given the significant level of Government funding allocated to the local authority and the assurance requirements and the new systems and processes set up to administer the funding. The report detailed activities in this area.

Given the resource required to support the Council's response to Covid-19, the Service had focused wider consultation with senior managers on those areas which underpinned corporate risks rather than service specific risks. In addition, the routine programme of school audit work would not be undertaken this year. Given the limited number of school audits carried out each year this was not viewed as having a significant impact and the Service would look to address this in 2021-22 with a wider programme of work.

The report highlighted the other areas of planned work concerning: ICT; Council / Audit priorities; financial systems; and corporate governance.

As a result, it was believed that the draft Audit Plan for 2020-21 was sufficient for the work required to report on governance, the management of risks and controls in the year and to prepare the annual opinion and report.

Members sought clarification regarding the risks associated with home working and the implications of the costs of providing equipment to allow employees to work remotely.

RESOLVED that the Audit and Procurement Committee notes the content and scope of the draft Internal Audit Plan for 2020/21, attached as Appendix One to the report, and approves the Plan.

22. **Audit and Procurement Committee Annual Report to Council 2019-2020**

The Committee considered their Annual Report that provided an overview of its activity during 2019-2020. The report was to be submitted to the City Council at their meeting on 8th December 2020. The Committee was a key component of the Council's governance framework, supporting good governance and strong public financial management.

The report included an introduction by the Chair, Councillor Lakha. During the previous municipal year, the Committee had met on six occasions and considered a range routine reports based on clearly defined expectations of services / functions such as internal / external audit and financial management, along with ad-hoc reports which focused on either a specific concern or developments which impacted directly on the Committee.

The report provided further details of the reports considered during this time which included, under governance, the Council's Annual Governance Statement. Financial Management and Accounting reports were the Statement of Accounts; the revenue and capital outturn position for 2018-19; quarterly monitoring reports of performance against the revenue and capital budgets; and a treasury management activity update.

A number of reports were submitted by the Council's external auditors Grant Thornton in 2019-20: the audit findings for the City Council; the 2019-20 Audit Plan; informing the audit risk assessment; and the public sector audit appointments publication on the audit market. In relation to Internal Audit, the Committee considered the Internal Audit Annual Report and the Internal Audit Plan for 2019-20 along with progress reports on Internal Audit work and the Recommendation Tracking report.

Fraud reports submitted during 2019-20 were the Annual Fraud report and the Half Yearly Fraud and Error Update report. Two Procurement reports had also been received along with a number of Salaries reports concerning salary or severance packages of £100k or over.

Other reports considered during this period which were linked to risk management, internal control and governance were the Whistleblowing Annual Report 2018-19; the Complaints to the Local Government and Social Care Ombudsman 2018-19, the Corporate Risk Register update; the Code of Corporate Governance; and the Regulation of Investigatory Powers Act 2000 Annual Compliance Report.

The Committee agreed to recommend that the City Council considered the Annual Report for 2019-2020 at their meeting on 8th December 2020.

RESOLVED that the Audit and Procurement Committee agrees that the City Council be recommended to consider the Audit and Procurement Committee Annual Report 2019-2020 at their meeting on 8th December 2020.

23. Complaints to the Local Government and Social Care Ombudsman 2019-20

The Committee considered a report of the Deputy Chief Executive which set out the number, trends and outcomes of complaints to the Local Government and Social Care Ombudsman (LGSCO) relating to Coventry City Council in 2019/20. It focused on upheld complaints; service areas with a high number of complaints; compliance with the Ombudsman's recommendations; learning from complaints; and how the Council compared to previous years and to other local authorities. The report had already been considered by the Cabinet Member for Policy and Leadership at his meeting on 26th November 2020 and was due to be considered by Ethics Committee at their meeting on 3rd December.

The report indicated that the LGSCO was the final stage for complaints about Councils, all adult social care providers (including care homes and home care agencies) and some other organisations providing local public services. It was a free service that investigated complaints in a fair and independent way and provided a means of redress to individuals for injustice caused by unfair treatment or service failure. Reference was also made to how the City Council's complaints policy operated, indicating the Council had a robust policy for handling complaints.

Every year the LGSCO issued an annual letter to the Leader and Chief Executive of every Council summarising the number and trends of complaints dealt with in each Council that year. The latest letter issued July 2019, covers complaints to the Council between April 2019 and March 2020. A copy of the letter was set out in an appendix to the report.

In 2019/20, the LGSCO received 117 complaints and enquiries relating to the Council, up from 100 the previous year (up 17%). The report provided a breakdown by category. A comparison was also provided with the past five years. For the last year, there had been a significant increase in complaints and enquiries about environmental services and highways and transport. Decisions made by the LGSO were:

12 incomplete/invalid;

1 advice given;

39 referred back for local resolution;

42 closed after initial enquiries; and

22 complaints investigated, of which 11 were upheld and 11 were not upheld.

Comparisons were provided with other local authorities, and of the complaints investigated across the WMCA, Coventry had the lowest percentage of complaints upheld at 50%.

The Committee were informed that of the 11 upheld complaints, 9 complaints were remedied by LGSCO and 2 were satisfactorily remedied by the Council before LGSCO involvement. The Ombudsman did not issue formal reports of maladministration for any of these upheld complaints. Further information was provided on these complaints by service area along with lessons learnt.

RESOLVED that having considered the Council's performance in relation to complaints to the LGSCO, the Audit and Procurement Committee:

- 1) Agrees that the Council's complaints process and guidance be noted.**
- 2) Are assured that the Council takes appropriate actions in response to complaints investigated and where the Council is found to be at fault.**

25. 2019/20 Statement of Accounts and Audit Findings Report

The Committee considered a report of the Director of Finance, which sought approval for the audited 2019/20 Statement of Accounts and Grant Thornton's Audit Findings report provided alongside the accounting statements. The Committee was approving these accounts on the Council's behalf. It followed an extension to the period of audit by Grant Thornton to 30th November in line with national regulation. The original deadline to complete and authorise the Statement of Accounts was 31st July, 2020. Copies of the Statement of Accounts and the Audit Findings report were attached as appendices to the report. The report had been circulated as an urgent item prior to the meeting, the reason for urgency being to enable the Council to publish the accounts by the end of November in line with existing regulations. Councillor Brown, Cabinet Member for Strategic Finance and Resources attended the meeting for the consideration of this item and spoke in support of the report. Mark Stocks and Avtar Sohal, Grant Thornton attended for the item. The Committee also received a detailed presentation from the Council's Corporate Finance Manager on the Statement of Accounts.

2019/20 Statement of Accounts

The Committee were informed that the audit of the accounts was complete with very small number of exceptions. Reference was made to impact of the Covid pandemic, which had seen significant turmoil in audit activity nationally, much of it reflected in the Redmond Review. This included the capacity of auditors to deliver current scope and the nature of some accounts content.

The outturn position showed:

- A balanced Outturn position after a contribution of £5.5m to reset and recovery reserve
- Council revenue reserves increase from £82m to £90m but includes £8m of up-front Covid funding
- Total reserves of £144m including schools and capital
- The actual Covid impact on spending was minor (£2.9m including additional bad debt provision)
- A Capital Programme of £216m
- Significant projects across the city – Whitley South, Battery Industrialisation Centre, Station Masterplan, The Wave, Salt Lane

Major issues highlighted included the Covid impact on ability to reliably value property, investment and pension assets; the fact that pension liability remained as a significant matter; overall long-term borrowing fell (but short-term treasury borrowing in place); and the importance of the Council's capital plans for the city. The Committee noted that the statutory environment and level of reserves left the

Council in a sound financial position, however, the Covid continued to impact on the delivery of plans in 2020/21 and on balancing the financial position in 2021/22.

Regarding the financial accounts and management accounts, the two sets of accounts presented on two different bases: a £11m deficit on the Comprehensive Income & Expenditure Statement (CIES) verses a balanced outturn position.

Additional information was provided on reserve trends; the balance sheet; long term investments; pension liabilities; officer renumerations; and the contingent liabilities. The Committee were informed that Covid had not been identified specifically as an issue for these accounts; the City of Culture guarantee did not represent a significant financial risk given surrounding controls (but was subject to ongoing monitoring); and that Covid added to the mix of uncertainty surrounding local government finances.

Audit Findings Report

The Audit Findings Report made particular reference to the significant impact that the Covid 19 pandemic had had on the operations of the Group and the Council, with the Council implementing Government guidance and using alternative ways to deliver services. Local Authorities were still required to prepare financial statements in accordance with relevant accounting standards and the CIPFA Code of Practice, albeit to extended deadlines. The Audit Risk Assessment was updated to consider the impact of the pandemic and an Audit Plan Addendum was issued on 29th April 2020. This reported on additional financial statement risk in respect of Covid-19 and the impact on the Value for Money approach. Restrictions for non-essential travel meant both Council and Audit staff had to carry out the financial statements away from the Council House.

In relation to the financial statement, the audit work was completed on site/remotely during July to November. The auditor's findings were summarised in the report. Adjustments had been identified in the financial statement that had resulted in adjustment to both this year and prior year balances. These adjustments were detailed in Appendix B to the report. The follow up of recommendations from the previous year's Audit were detailed in Appendix A. The auditor's work was substantially complete and there were no matters that would require modification of the audit opinion or material changes to the financial statements, subject to the following outstanding matters:

- receipt of assurance confirmations from component auditors of Tom White Waste Limited and Coombe Abbey Park Limited
- receipt of management representation letter; and
- review of the final set of financial statements.

The auditor had concluded that the other information to be published with the financial statements was consistent with their knowledge of the City Council.

The anticipated audit report opinion would be unqualified including an Emphasis of Matter paragraph, highlighting:

PPE valuation material uncertainties – the valuer had indicated that due to Covid-19 that there were uncertainties in their valuation of land, buildings and investment properties

Pensions PPE valuation – the pension funds valuer had indicated that due to Covid-19 that there were uncertainties in their valuation of investment property.

The other key issues identified included:

- The audit testing identified that there were some errors in the valuation of assets in 2018/19. The Council had made prior period adjustments which would result in the increase of Investment Properties by £9.1m and an increase in operational assets of £11m, with adjustments detailed in Appendix B.
- In March 2020 the Council purchased Tom White Waste Limited for £14.6m. The Council did not instruct a valuation as at the balance sheet date for its investment in Tom White Waste and therefore the asset was held at its purchase valuation. This was considered an uncertainty in the Council's accounts
- The Business Rates provision had increased in 2019/20 to £14.8m. The provision had been reviewed and it is not considered that this was unreasonable.
- The credit loss allowance with regard to other debtors had been reviewed. It was considered that there was a risk in collecting old debt especially due to the impact of Covid-19. The Council had been requested to review this debt in more detail in advance of the 2020/21 audit.
- It was noted that the Council's subsidiary, Coombe Abbey, was operating at significant losses of £354,000 up to the year ending 31 March 2020. The impact of Covid-19 has had a further significant impact on the trading of the subsidiary. The assurances from the component auditor of this subsidiary was awaited
- Reference was made to the Council's investment in Birmingham Airport. The trading conditions for the Airport were uncertain and it was noted that the valuation of the Council's investment reduced from £29.3m in 2018/19 to £17.9m in 2019/20. It was possible that the value would have reduced further in 2020/21. The Council alongside the other 6 West Midlands authorities had stated its intention to engage in discussion with the Airport with regards to providing tangible support to the Airport should this be required.

The risk-based review of the Council's value for money arrangements had been completed. It was concluded that the City Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The VfM risk assessment to document the understanding of the Council's arrangements to ensure critical business continuity in the current environment had been updated. No new VfM risks in relation to Covid-19 had been identified, so it was anticipated that an unqualified value for money conclusion would be issued.

None of the auditor's additional statutory powers or duties had been exercised. The majority of work under the Code had been completed but the completion certificate couldn't be issued until the audit of whole of government accounts (WGA) had been completed.

Members sought clarification about the implications for employees of the £95,000 cap regarding pensions; further details about the implications of potential cancellations of City of Culture 2021 events; and further information about the hospitals' business rates issue. A request was made for an update report on the key issues highlighted in the Audit Findings Report to be submitted to a future meeting of the Committee.

The Chair, Councillor Lakha and Members placed on record their appreciation and thanks to the Director of Finance, the Corporate Finance Manager and the team for all their hard work during the current year on the Council's Statements of Accounts. The Chair also thanked Grant Thornton for all their work.

RESOLVED that the Audit and Procurement Committee:

- 1) Having considered the final 2019/20 Statement of Accounts, approves the Accounts.**
- 2) Accepts the Grant Thornton's Audit Findings Report provided alongside the accounting statements.**
- 3) Agrees that delegated approval be given to the Director of Finance and the Corporate Finance Manager, following consultation with the Chair of Audit and Procurement Committee, to agree any final changes to the Statement.**
- 4) Agrees that an update report on the key issues highlighted in the Audit Findings Report be submitted to a future meeting when appropriate.**

26. Any other items of public business which the Chair decides to take as a matter of urgency because of the special circumstances involved.

There were no other items of public business.

Private Business

27. Procurement and Commissioning Progress Report

The Committee considered a report of the Director of Housing and Transformation which provided an update on the procurement and commissioning undertaken by the Council since the last report to Committee on 11th November 2019. Details of the latest positions in relation to individual matters were set out in the Appendix to the report. The report contained information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972 as amended. The grounds for privacy were that it contained information relating to the financial and business affairs of a particular person (including the authority holding that information). The public interest in maintaining the exemption under Schedule 12A outweighed the public interest in disclosing the information.

The report indicated that since the last Committee when the procurement report had been presented, the Procurement Panel had received 106 reports and the Procurement Board 50 reports.

The Committee considered if a summarised position of reports taken to Procurement Panel, Procurement Board and Cabinet, showing number of meetings, number of reports considered and any key issues for the panel, together with information on 'exceptions to the Contract Procedure Rules' and information on performance of key contracts would be more beneficial than the current format.

Support was expressed for this approach and Members were informed that the intention was to submit a new format report to the June 2021 Committee meeting, with future reports then being submitted every six months. Clarification was provided that the social value of the key contracts was part of the process and would be included in reporting.

RESOLVED that the Audit and Procurement Committee:

- 1) Notes the current position in relation to the Commissioning and Procurement Services.**
 - 2) Agrees that no recommendations are to be made to the Cabinet Member for Strategic Finance and Resources, Cabinet or Council on any of the matters reported.**
 - 3) Approves the change in format and frequency of reports, as outlined in the report.**
 - 4) Agrees that the new format report to be submitted to the Committee on a six-monthly basis, with the next report being considered in June 2021.**
28. **Any other items of private business which the Chair decides to take as a matter of urgency because of the special circumstances involved.**

There were no other items of private business.

(Meeting closed at 5.55 pm)

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Audit and Procurement Committee

25th January 2021

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director approving submission of the report:

Director of Law and Governance

Ward(s) affected:

N/A

Title:

Outstanding Issues

Is this a key decision?

No

Executive summary:

This report is to identify those issues on which further reports / information has been requested or are outstanding so that Members are aware of them and can monitor their progress.

Recommendations:

The Committee is recommended to:

1. Consider the list of outstanding items as set out in the Appendices to the report, and to ask the Director concerned to explain the current position on those items which should have been discharged.
2. Agree that those items identified as completed within the Appendices to the report, be confirmed as discharged and removed from the outstanding issues list.

List of Appendices included:

Appendix 1 - Further Report Requested to Future Meeting

Appendix 2 - Information Requested Outside Meeting

Other useful background papers:

None

Has it or will it be considered by scrutiny?

No

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:
Outstanding Issues

1. Context (or background)

- 1.1 In May 2004, the City Council adopted an Outstanding Minutes system, linked to the Forward Plan, to ensure that follow-up reports can be monitored and reported to Members.
- 1.2 At their meeting on 25th January 2017, the Audit and Procurement Committee requested that, in addition to further reports being incorporated into the Committee's Work Programme, a report be submitted to each meeting detailing those additional reports requested to a future meeting along with details of additional information requested outside the formal meeting.
- 1.3 Appendix 1 to the report outlines items where a report back has been requested to a future Committee meeting, along with the anticipated date for further consideration of the issue.
- 1.4 In addition, Appendix 2 to the report sets out items where additional information was requested outside the formal meeting along with the date when this was completed.
- 1.5 Where a request has been made to delay the consideration of the report back, the proposed revised date is identified, along with the reason for the request.

2. Options considered and recommended proposal

- 2.1 N/A

3. Results of consultation undertaken

- 3.1 N/A

4. Timetable for implementing this decision

- 4.1 N/A

5. Comments from the Director of Finance and the Director of Law and Governance

5.1 Financial implications

N/A

5.2 Legal implications

N/A

6. Other implications

6.1 How will this contribute to achievement of the Council's Plan?

N/A

6.2 How is risk being managed?

This report will be considered and monitored at each meeting of the Cabinet

6.3 What is the impact on the organisation?

N/A

6.4 Equalities / EIA

N/A

6.5 Implications for (or impact on) climate change and the environment

N/A

6.6 Implications for partner organisations?

N/A

Report author(s):

Name and job title:

Lara Knight
Governance Services Co-ordinator

Service:

Law and Governance

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Enquiries should be directed to the above person.

Contributor/approver name	Title	Service	Date doc sent out	Date response received or approved
Contributors: -				
Names of approvers: (Officers and Members) -				

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Appendix 1

Further Reports Requested to Future Meetings

	Subject	Minute Reference and Date Originally Considered	Date for Further Consideration	Responsible Officer	Proposed Amendment to Date for Consideration	Reason for Request to Delay Submission of Report
1.	Corporate Risk Register Update The Committee's suggestion that consideration be given to Risk 020 relating to Brexit being rated as red and a report be prepared for Committee in due course.	Minute 54/19 27 January 2020	To be confirmed	Paul Jennings		
2	Further information requested on the progress of recommendations made in respect of the audit of IT Disaster Recovery.	Minute 6/20 19 October 2020	When the formal follow-up review of the audit is undertaken, the findings be reported to Committee	Karen Tyler		
3	In-light of changes to rules regarding limits on exit packages, an annual update report on severance packages be received by the Committee.	Minute 14/20 19 October 2020	Report to Committee on an annual basis	Barry Hastie		
4	An update report on the key issues highlighted in the Audit Findings Report be submitted to a future meeting when appropriate.	Minute 25/20 30 November 2020	Report to Committee when appropriate	Paul Jennings		
5	Procurement and Commissioning Progress Report – New Format	Minute 27/20 30 November 2020	Future reports on a six-monthly basis with the next update report to be submitted to Committee in June 2021	Mick Burn		

Appendix 2

Information/Action Requested Outside Meeting

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	Subject	Minute Reference and Date Originally Considered	Information Requested / Action Required	Responsible Officer	Date Completed
1.	Procurement and Commissioning Progress Report – Future Reporting Arrangements	Minute 22/18 16th July 2018 and Minute 45/19 11th November 2019	Discussion be held with the Chair of the Committee to determine the most appropriate format and submission of future reports. To include clarity of the role of the Committee in considering the reports.	Karen Tyler/ Mick Burns	Audit and Procurement Committee 30th November 2020 – Report on agreed new format and submission of future reports - Minute 27/20 refers
2.	2020/21 Second Quarter Financial Monitoring Report (to September 2020) – Request for additional information	Minute 20/20 30 th November 2020	The Committee to be provided with clarification on the Legal and Governance Services overspend. The Committee be updated regarding the Legal Services agency costs and the completion date of the St Mary's Guildhall Capital Scheme. Information on the A46 Link Road Project, circulated in March 2020, to be sent to the Committee.	Paul Jennings	Information circulated to the Committee on 30 th November and 1 st December 2020

Agenda Item 6

Audit and Procurement Committee

25th January 2021

Work Programme 2020-21

19th October 2020

Internal Audit Annual Report 2019-20
Annual Governance Statement 2019-20
Revenue and Capital Out-turn 2019-20
Quarter One Revenue and Capital Monitoring Report 2020-21
RIPA (Regulation of Investigatory Powers Act) Annual Report 2020
Consideration of Approval of Severance Package (private)
Consideration of Approval of Severance Package (private)

30th November 2020

Audited Statement of Accounts 2019-20
Audit Findings Report 2019-20 (Grant Thornton)
Internal Audit Plan 2020-21
Quarter Two Revenue and Capital Monitoring Report 2020-21
Audit and Procurement Committee Annual Report 2019-20
Complaints to the Local Government and Social Care Ombudsman 2019/20
Six monthly Procurement Progress Report 2020-21 (private)

25th January 2021

Third Quarter Internal Audit Progress Report 2020-21
Treasury Management update
Annual Fraud and Error Report 2019-20 (including Whistleblowing)
Half yearly Fraud and Error Update 2020-21 (public and private)

15th March 2021

Informing the Audit Risk Assessment for Coventry City Council 2020-21 (Grant Thornton)
Annual Audit Letter 2019-20 (Grant Thornton)
External Audit Plan Year Ending March 2021 (Grant Thornton)
Corporate Risk Register Update
Quarter Three Revenue and Capital Monitoring Report 2020-21
Code of Corporate Governance
Information Governance Annual Report 2020

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To: Audit and Procurement Committee

Date: 25th January 2021

Subject: Treasury Management Update

1 Background and Purpose of the Note

1.1 This note provides an update on the Council's Treasury Management activity in 2020/21 to the end of September 2020. The Committee is asked to note the report.

2 Treasury Management Activity

2.1 The Council adopts the Chartered Institute of Public Finance and Accountancy's "Treasury Management in the Public Services: Code of Practice" (the CIPFA code). This requires the Council to approve an annual Treasury Management Strategy and a mid-year update report. Treasury Management performance is reported as part of regular budget monitoring reports to this Committee.

2.2 The Council's Treasury Management activity is undertaken in line with the Treasury Management and Commercial Investments Strategy and Policy for 2020/21, which was agreed by Cabinet as part of the Budget Report 2020/21 at its meeting of 25 February 2020. There are no breaches of the strategy and policy to report.

2.3 The Council is supported in the Investment Strategy and Policy by its Treasury Management Advisors - Arlingclose. The advisors provide economic analysis and specialist advice. A key element of this is the provision of advice on credit risk and the supply of information on credit ratings. Regular review meetings with the advisors continue to be held.

2.4 Staff with involvement in treasury issues continue to attend on-line events focused on treasury management as appropriate.

2.5 **Appendix 1** is a detailed list of short-term borrowing and investments that the Council holds as at 30 September 2020.

Borrowing Update:

2.6 The first table at **Appendix 1** identifies that the total short-term borrowing as at 30 September 2020 is £94m at an average interest rate of 0.95%.

2.7 At the end of the previous financial year, the total short-term borrowing was £20m. A further significant amount of short-term borrowing (£74m) was undertaken in April 2020 solely to enable a heavily discounted upfront payment of £97.8m to be made to the West Midlands Pension Fund. This payment represents three years employer's contributions.

- 2.8 No long-term borrowing has been undertaken for several years, due in part to the level of investment balances available to the Council. The Council has no immediate plans to take any new long-term borrowing, however, this will be kept under review. As at 31st March 2020, the Council's long-term liabilities totalled £315.8m. Most of the long-term borrowing is sourced from the Public Works Loan Board (PWLB) (£190.4m).
- 2.9 In November 2020 the PWLB cut its lending rates by 1%. However, the ability to use this facility does not come without strings. The Treasury announced that from now on, councils can only borrow from PWLB if finance directors "confirm that there is no intention to buy investment assets primarily for yield" in the three years following a loan. Finance directors will also need to submit a plan for capital spending and financing plans covering the forthcoming three years. Further restrictions mean PWLB will not lend to a council planning to buy assets for yield "regardless of whether the transaction would notionally be financed from a source other than the PWLB." Failure to comply with the rules could lead to a council being banned from using the PWLB borrowing facility.

Investments Update:

- 2.10 The final three tables at **Appendix 1** provide a detailed list of investments held as at 2nd October 2020 and identifies a total investment of £112.8m. This compares to £75.5m held a year ago. The breakdown of these balances is shown below:

	11/10/2019 £m	02/10/2020 £m
Banks and Building Societies	5.0	0.0
Local Authorities	0.0	5.0
Money Market Funds	21.5	67.8
Collective Investment Funds	30.0	30.0
Corporate Bonds	9.0	0.0
Registered Providers	10.0	10.0
Total	75.5	112.8

- 2.11 For the twelve-month period to 30th September 2020, the Council's investments earned an average rate of interest of 1.18%. This can be split down between Collective Investment Funds at 4.02% and other investments at 0.25%. This is against a backdrop of the Bank of England base rate being 0.75% at the start of the annual period but dropping to 0.1% by September 2020.

- 2.12 **Appendix 2** in this report shows the Council's Lending List as at 31 December 2020. This list shows those banking and government institutions that the Investment Strategy allows the Council to invest cash balances with. The list is taken using specialist advice from Arlingclose and is split between UK and foreign institutions. In comparison to this time last year, there has been a substantial reduction in the number of counterparties due to the current financial climate. For example, all Building Societies who do not hold a credit rating have been removed from the counterparty list following a review of the sector by Arlingclose. The Council does not hold any funds with counterparties that are not on this list. The institutions on the counterparty list and recommended duration remain under constant review.

- 2.13 The Bank of England has still not ruled out the possibility of negative interest rates to stimulate the economy. The theory is that negative rates should encourage borrowing and discourage deposits and savings. The move to negative interest rates could mean having to pay banks to look after the Council's deposits in the form of higher bank charges or depository fees. However, on the flip side, the Council could borrow at less than cost i.e. the full amount would not have to be paid back to the lender.
- 2.14 Whilst the Council's Collective Investment Funds have continued to provide an annualised return of 4%, their capital value has decreased by £2.1m due mainly to the impact of COVID-19. Normally this would not be an issue unless the Council intended to disinvest from the funds (the intention is that the Council keeps these for the long term) however, there is currently a statutory override for gains and losses on pooled investment funds held outside of a pension fund being taken to revenue. This was introduced in 2018 following a change to International Financial Reporting Standards (IFRS). At the time, the government felt it was inappropriate for revaluations to "impact on the balanced budget requirement or on the quantum of funds available to support delivery of services." But this particular override is time-limited and is due to expire in April 2023. If the override isn't extended, then the Council will be required to offset these capital losses against the revenue budget.

National Issues:

- 2.15 The impact to the UK from the Covid 19 pandemic has a major influence on the economy and the Council's ability to gain returns on investments. This will be ongoing into 2021/22.
- 2.16 In the overall economy, the medium-term outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short-term. Despite the credit ratings for many UK institutions being downgraded on the back of the downgrades to the sovereign rating, credit conditions in banks and building societies have tended to be relatively benign, despite the impact of the pandemic. Looking forward, the potential for bank losses to be greater than expected when government and central support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in the short-term.
- 2.17 The Council has been in receipt of central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. These funds have been temporarily invested in short-term liquid instruments, particularly in Money Market Funds (see paragraph 2.10 above). Work continues to ensure that all appropriate parties receive the grant payments. The government has recently announced a further support package of grants up to £9,000 per business to be administered by the Council. The upfront payment of grants has and will grossly inflate the Council's cash balances.

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TEMPORARY LOANS BOOK

Balances as at the 02/10/20

<u>LOAN REF.</u>	<u>LENDER NAME</u>	<u>BROKER</u>	<u>PRINCIPAL</u>	<u>START DATE</u>	<u>MATURITY DATE</u>	<u>INITIAL INT RATE</u>	<u> DAYS</u>	<u>INT DUE</u>
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TEMPORARY LOAN IN(BORROWING)

100001921	TEWKESBURY B COUNCIL	BT	2,000,000.00	10/10/19	08/10/20	1.000000	364	19,945.21
100001922	NORTH SOMERSET COUNCIL	SB	2,000,000.00	11/10/19	09/10/20	1.000000	364	19,945.21
100001923	RUNNYMEDE B COUNCIL	SB	3,000,000.00	11/10/19	09/10/20	1.000000	364	29,917.81
100001924	LONDON BOROUGH OF EALING	MARB	5,000,000.00	15/10/19	13/10/20	1.000000	364	49,863.01
100001925	RYEDALE DISTRICT COUNCIL	CDB	2,000,000.00	28/10/19	26/10/20	1.000000	364	19,945.21
100001926	TAMESIDE M.B.C.	CDB	3,000,000.00	28/11/19	26/11/20	1.000000	364	29,917.81
100001927	HERTSMERE BOROUGH COUNCIL	MARB	3,000,000.00	02/01/20	04/01/21	1.000000	368	30,246.58
100001934	EAST RIDING PENSION FUND	CDB	10,000,000.00	01/04/20	11/03/21	0.950000	344	89,534.25
100001935	RUTLAND COUNTY COUNCIL	CDB	3,000,000.00	17/04/20	16/04/21	0.950000	364	28,421.92
100001936	SOUTH DOWNS NATIONAL PARK	CDB	2,000,000.00	17/04/20	16/04/21	0.950000	364	18,947.95
100001937	SOUTH OXFORDSHIRE DC	CDB	5,000,000.00	02/04/20	01/04/21	0.950000	364	47,369.86
100001938	LONDON BOR. OF CAMDEN	CDB	5,000,000.00	02/04/20	01/04/21	0.950000	364	47,369.86
100001939	HERTFORDSHIRE CC	BT	10,000,000.00	20/04/20	20/04/21	1.000000	365	100,000.00
100001944	TAMWORTH B COUNCIL	IMP	4,000,000.00	29/04/20	28/04/21	0.900000	364	35,901.37
100001945	RUGBY BOROUGH COUNCIL	IMP	5,000,000.00	29/04/20	29/01/21	0.920000	275	34,657.53
100001946	GREATER LONDON AUTH	BT	10,000,000.00	29/04/20	28/04/21	0.980000	364	97,731.51
100001947	WEST MIDLANDS COM AUTH	N/A	20,000,000.00	29/04/20	29/10/20	0.850000	183	85,232.88

94,000,000.00**784,947.94****=====**TEMPORARY LOAN OUT (DEPOSIT)

200004190	THAMES VALLEY HOUSING AS	BT	10,000,000.00	15/05/20	14/05/21	1.500000	364	149,589.04
200004192	TELFORD & WREKIN COUNCIL	BT	5,000,000.00	29/09/20	29/03/21	0.150000	181	3,719.18
								=====
			15,000,000.00					153,308.22

=====**=====**MMF DEPOSITS

2400000002	ABERDEEN LIQUIDITY FUND	N/A	20,000,000.00	04/09/12		0.073693		
2400000003	HSBC STERLING LIQUIDITY	N/A	20,000,000.00	04/09/12		0.060000		
2400000004	FEDERATED PRIME RATE	N/A	7,800,000.00	17/09/12		0.050552		
2400000005	DEUTSCHE MANAGED STERLING	N/A	0.00	19/07/13		0.048326		
2400000006	MORGAN STANLEY	N/A	20,000,000.00	10/06/16		0.070000		
								=====
			67,800,000.00					=====

=====**=====**COLLECTIVE INVESTMENT FUNDS

2600000006	CCLA INVESTMENT MGT LTD	N/A	12,000,000.00	28/11/13		4.520000		
2600000011	SCHRODERS UNIT TRUSTS LTD	N/A	4,500,000.00	01/08/18		6.240000		
2600000012	INVESTEC ASSET MANAGEMENT	N/A	4,500,000.00	10/08/18		4.120000		
2600000013	COLUMBIA TREADNEEDLE	N/A	1,500,000.00	16/08/18		2.480000		
2600000014	M&G INVESTMENTS	N/A	1,500,000.00	20/08/18		2.750000		
2600000015	M&G INVESTMENTS	N/A	3,000,000.00	20/08/18		4.340000		
2600000016	M&G INVESTMENTS	N/A	3,000,000.00	20/08/18		3.530000		
								=====
			30,000,000.00					=====

=====**=====****GRAND TOTAL****112,800,000.00****=====**

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COVENTRY CITY COUNCIL LENDING LIST
31/12/2020

USING MINIMUM ACCEPTABLE CREDIT QUALITY	Institution	Country	Long Term Rating			Limit £m	Term Limit
			Fitch	Moody's	S & P		
Debt Management Office		UK	AA+	Aa1	AAA		50 years
Local Authorities		UK	AA+	Aa1	AAA		50 years
UK BANKS AND BUILDING SOCIETIES:							
Bank of Scotland PLC		UK	A+	A1	A+	£10m	35 Days
Lloyds Bank PLC		UK	A+	A1	A+	£10m	35 Days
Barclays Bank PLC		UK	A+	A1	A	£10m	35 Days
Barclays Bank UK PLC		UK	A+	A1	A	£10m	35 Days
HSBC Bank PLC		UK	AA-	A1	A+	£10m	35 Days
HSBC UK Bank PLC		UK	AA-	A3	A+	£10m	35 Days
National Westminster Bank		UK	A+	A1	A	£10m	35 Days
Royal Bank of Scotland PLC/T		UK	A+	A1	A	£10m	35 Days
Ulster Bank Limited		UK	A+	A1	A	£10m	35 Days
Santander UK PLC		UK	A+	A1	A	£10m	35 Days
Standard Chartered Bank		UK	A+	A1	A	£10m	35 Days
Nationwide Building Society		UK	A+	A1	A	£10m	35 Days
NON UK INSTITUTIONS:							
Australia and New Zealand Banking Group Ltd		AU	A+	Aa3	AA-	£10m	35 Days
National Australia Bank Ltd		AU	A+	Aa3	AA-	£10m	35 Days
Nordea Bank ABP		FI	AA	Aa3	AA-	£10m	35 Days
DZ Bank		GE	AA-	Aa1	AA-	£10m	35 Days
Landesbank Baden Wuerttember		GE	A	Aa3		£10m	25 Years
Cooperative Centrale Raiffe (Rabobank)		NE	AA-	Aa3	A+	£10m	35 Days
DBS Bank Ltd		SI	AA-	Aa1	AA-	£10m	35 Days
Group Limits: £20m per non UK country							
MONEY MARKET FUNDS (MMF)							
Aberdeen Asset Management		LX	AAA	Aaa	AAA	£20m	
HSBC Asset Management		IR		Aaa	AAA	£20m	
Federated Investors (UK)		UK	AAA		AAA	£20m	
Morgan Stanley Investment Management		IR	AAA	Aaa	AAA	£20m	
Money Market Funds Limits: £100m in total							
These are the Council's current working limits.							

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Coventry City Council

Public report

Report to

Audit and Procurement Committee

25th January 2021

Name of Cabinet Member:

Cabinet Member for Policy and Leadership – Councillor G Duggins

Director approving submission of the report:

Director of Finance

Ward(s) affected:

City Wide

Title:

Quarter Three Internal Audit Progress Report 2020-21

Is this a key decision?

No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with an update on the internal audit activity for the period April to December 2020, against the Internal Audit Plan for 2020-21.

Recommendations:

Audit and Procurement Committee is recommended to:

- 1) Note the performance as at quarter three against the Internal Audit Plan for 2020-21.
- 2) Consider the summary findings of the key audit reviews (attached at Appendix One to the report).

List of Appendices included:

Appendix One - Summary Findings from Key Audit Reports Completed between April and December 2020

Background papers:

None

Other useful documents

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:

Quarter Three Internal Audit Progress Report 2020-21

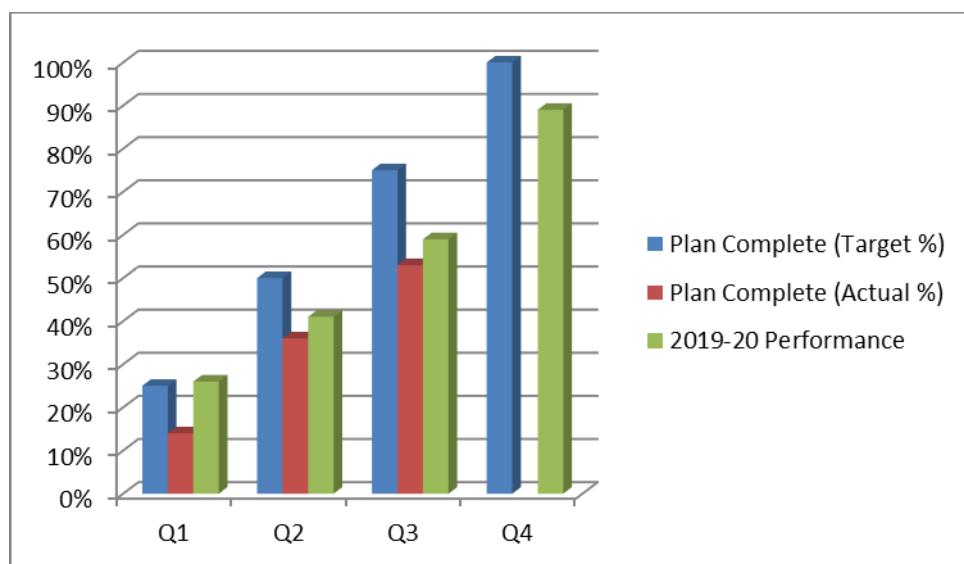
1. Context (or background)

- 1.1 This report is the first monitoring report for 2020-21, which is presented in order for the Audit and Procurement Committee to discharge its responsibility 'to consider summaries of specific internal audit reports as requested' and 'to consider reports dealing with the management and performance of internal audit'.
- 1.2 Whilst normally the Audit and Procurement Committee would have received the first monitoring report at quarter two, due to the impact of the pandemic, this report is the first monitoring report presented to the Committee this year. However, it does provide all relevant information for the period April to December 2020.

2. Options considered and recommended proposal**2.1 Delivering the Audit Plan**

The key target facing the Internal Audit Service is to complete 90% of its work plan by the 31st March 2021. The chart below provides analysis of progress against planned work for the period April to December 2020.

Chart One: Progress against delivery of Internal Audit Plan 2020-21



As at the end of December 2020, the Service has completed 53% of the Audit Plan against a planned target of 75% (which is based on delivering 100% of the plan). It is acknowledged that progress at the end of quarter three is below target with the number of audits completed at the end of December 2020 having been affected by the following factors:

- As a result of the Principal Auditor post becoming vacant at the end of April 2020, all quality assurance work on completed audits has been undertaken during the period by the Chief Internal Auditor. Whilst this activity is a key part of the audit process, it has had to be managed alongside other work priorities which in some cases, has led to delays in draft audit reports being issued. A new Principal Auditor was appointed in November

2020, which will ensure there is sufficient capacity to undertake this work on a timely basis moving forward.

- A significant number of audit days was allocated during April to September 2020 to deliver the assurance requirements linked to the first round of grants to businesses affected by covid-19. Whilst assurance work has now commenced on the next phase of grants, this process has now become more streamlined, with reliance placed on the results of previous checks wherever possible.
- Given the Council's priorities around the pandemic, the Service has had to maintain flexibility with customers, which on occasion has led to audit work being completed over long time frames than usual.

Achievement of 90% of the audit plan by the end of March 2021 will be a key priority for the Internal Audit Service in quarter four. Whilst clearly this does present some challenges, it is the Chief Internal Auditor's view that meeting this target is not unrealistic, given the appointment of two new members of staff to the Team in quarter three (including the Principal Auditor) and the fact that a number of on-going audits are now nearing completion.

2.2 Other Key Performance Indicators (KPI's)

In addition to the delivery of the Audit Plan, the Internal Audit Service has a number of other KPI's which underpin its delivery. The table below shows a summary of the performance for 2020-21 to date against these five KPIs, with comparative figures for the financial year 2019-20. Currently, all of the indicators are at or above target. However, performance management continues to be a key focus for management within Internal Audit, with targeted actions remaining on-going to continue to make improvements and deliver sustainable performance, especially in the context of remote working. (It should be noted that where there have been delays in the completion of work due to factors outside of the Auditor's control, appropriate extensions have been approved by the Chief Internal Auditor.)

Table One: Internal Audit Key Performance Indicators 2020-21

Performance Measure	Target	Performance Q3 2020	Performance 2019-20
Planned Days Delivered (Pro rota against agreed plan)	100%	61%	95%
% of work time spent on audit work	90%	90%	88%
Draft Report to Deadline (Draft issued in line with date agreed)	80%	88%	85%
Final Report to Deadline (Final issued within 4 weeks of draft)	80%	88%	88%

Audit Delivered within Budget Days	80%	83%	79%
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2.3 Audits Completed to Date

Attached at Table Two below is a list of the audits finalised between April and December 2020, along with the level of assurance provided.

Table Two: Audits completed April to December 2020

Audit Area	Audit Title	Assurance
2019/20 B/Fwd	Contract Management Framework	Moderate
	Adult Social Care workflow processes	Moderate
	Asset Management Patching and Secure Configuration	Limited
	Accounts Payable	Significant
Corporate Risk	Business Rates Grants – round 1	N/a
	Discretionary Grants – round 1	N/a
	PPE	Fact finding
	Supplier relief	N/a
Council / Audit priorities	Bribery and Corruption arrangements	Moderate
	Tribepad Recruitment System	Moderate
	Council Plan performance reporting	Significant
Regularity	Annual Governance Statement	N/a
	Blue Badge Grant	Verification
	Innovate UK Grant – West Midlands RESO	Verification
	Coventry North Regeneration	Significant
	North Coventry Holdings	Significant
	Innovate UK Grant – Parking AV	Verification
	Disabled Facility Grant	Verification
	Sherbourne Fields Grant	Verification
	Growth Deal Hub	Verification
	S256 Health Grant	Verification
	Teachers Pension Statements	Verification
	Bus Subsidy Grant	Verification
	Highways Grants	Verification
	EU Brexit Readiness Grant	Verification
	School Direct Grant	Verification
Formal Follow Ups	Passenger Transport	Moderate
	Sports and Arts Cultural Grants process	Limited
	Resourcelink Self-Service delegated Authority	Limited

The following audits are currently in progress:

- **Audits at Draft Report Stage** – Information Governance Risk Management
- **Audits On-going** – Expenditure Analytical Review, Sickness Absence Reporting, Management Compliance with HR Procedures Follow Up, CareDirector, Cyber Resilience, Mobile Phones, Council Tax, Payment of Allowances, Risk Management, Controls over Additional Covid Funding, Business Grants round 2, Accounts Receivable.

Details of a selection of key reviews completed in this period are provided at Appendix One. In all cases, the relevant managers have agreed to address the issues raised in line with the timescales stated. These reviews will be followed up in due course and the outcomes reported to the Audit and Procurement Committee.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a monitoring report.

5. Comments from the Director of Finance and the Director of Law and Governance

5.1 Financial Implications

There are no specific financial implications associated with this report. Internal audit work has clear and direct effects, through the recommendations made, to help improve value for money obtained, the probity and propriety of financial administration, and / or the management of operational risks.

5.2 Legal implications

Reporting on progress in regards to the delivery of the Annual Audit Plan ensures that the Council meets its statutory obligations in respect of maintaining an internal audit function and represents good governance.

6. Other implications

6.1 How will this contribute to achievement of the council's Plan?

Internal Auditing is defined in the Public Sector Internal Audit Standards as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". As such the work of Internal Audit is directly linked to the Council's key objectives / priorities with specific focus agreed on an annual basis and reflected in the annual Internal Audit Plan.

6.2 How is risk being managed?

In terms of risk management, there are two focuses:

- Internal Audit perspective - The main risks facing the Service are that the planned programme of audits is not completed, and that the quality of audit reviews fails to meet customer expectations. Both these risks are managed through defined processes (i.e. planning and quality assurance) within the Service, with the outcomes included in reports to the Audit and Procurement Committee. Delays in the delivery of individual audits could occur at the request of the customer, which could impact on the delivery of the plan. The risk is managed through on-going communication with customers to agree timing and identify issues at an early stage to allow for remedial action to be taken.
- Wider Council perspective - The key risk is that actions agreed in audit reports to improve the control environment and assist the Council in achieving its objectives are not implemented. To mitigate this risk, a defined process exists within the Service to gain assurance that all actions agreed have been implemented on a timely basis. Such assurance is reflected in reports to the Audit and Procurement Committee. Where progress has not been made, further action is agreed and overseen by the Audit and Procurement Committee to ensure action is taken.

6.3 What is the impact on the organisation?

None

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) climate change and the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):

Name and job title:

Karen Tyler

Chief Internal Auditor

Service:

Finance

Tel and email contact

Tel: 024 7697 2186

Email: Karen.tyler@coventry.gov.uk

Enquiries should be directed to the above person.

Contributor/approver name	Title	Service	Date doc sent out	Date response received or approved
Contributors:				
Michelle Salmon	Governance Services Officer	Law and Governance	7/01/21	8/01/21
Paul Jennings	Finance Manager Corporate Finance	Finance	7/01/21	8/01/21
Names of approvers: (officers and members)				
Barry Hastie	Director of Finance	-	7/01/21	12/01/21
Councillor G Duggins	Cabinet Member for Policy and Leadership	-	12/01/21	14/01/21

This report is published on the council's website: www.coventry.gov.uk/meetings

Appendix One – Summary findings from Key Audit Reports completed between April and December 2020

Audit Review / Actions Due / Responsible Officer(s)	Key Findings
Asset Management Patching and Secure Configuration March 2021 Operational Delivery Manager / End User Device Lead / IT Security Lead / Data Centre Service Lead	<p>Overall Objective: To review controls to ensure that all assets are known, allocated, securely configured and if appropriate, patched up to date.</p> <p>Key controls assessed:</p> <ul style="list-style-type: none"> - Documented Asset Management and Patch Management policies and procedures exist together with build standards outlining secure configuration settings. - There are complete and accurate inventory records for all ICT hardware and software assets. - Endpoint security build including hardware encryption, automated patch management software and antivirus software. - The prompt and complete installation of all new security patches across the PC, database and server estate. - All un-supported Council systems or servers are promptly upgraded or decommissioned. - Council servers are subject to regular internal vulnerability scanning and all reported vulnerabilities are promptly resolved. <p>Opinion: Limited Assurance</p> <p>Actions Agreed – risk level high (H) or medium (M):</p> <ul style="list-style-type: none"> • A documented and approved Asset Management Policy should be issued outlining guidelines on the procurement, tracking, physical security and secure disposal of IT assets. (M) • All inactive Certero accounts should be promptly disabled and a review should be initiated of all ICT devices that have not connected to the Certero application for over 60 days. (M) • All network devices with a significantly out of date antivirus signature should be disabled from the Council's Active Directory domain. (M) • Active Directory security settings should be reviewed to ensure that AutoPlay is disabled by default and a review should be initiated to assess the feasibility of restricting USB devices to authorised ICT personnel. (M) • The latest Service Pack should be applied to all SQL Server databases. (M) • Domain Admin superuser rights should be subject to quarterly review and all unnecessary accounts promptly disabled. (H) • All unsupported Windows 2008 servers should be promptly replaced or decommissioned, with a target data set to achieve this. (M) • All unsupported SQL Server 2008 databases should be upgraded or decommissioned. (M) • The Council's server estate should be subject to monthly internal vulnerability scanning. (M)

Audit Review / Actions Due / Responsible Officer(s)	Key Findings								
<p>Sports and Arts Cultural Grants Process Follow up Review</p> <p>March 2021</p> <p>Head of Sport, Culture and Destination Services</p> <p>A summary of progress made against the agreed actions is shown below:</p> <table border="1" data-bbox="137 700 541 874"> <tr> <td>Number of Actions</td> <td>6</td> </tr> <tr> <td>Implemented</td> <td>2</td> </tr> <tr> <td>No Progress</td> <td>0</td> </tr> <tr> <td>On-going</td> <td>4</td> </tr> </table>	Number of Actions	6	Implemented	2	No Progress	0	On-going	4	<p>Overall Objective: To provide assurance that agreed actions have been implemented as planned and there are now effective systems in place to provide robust governance over grant schemes to support cultural activities within the city.</p> <p>Recommendations followed up:</p> <ul style="list-style-type: none"> - As part of the fundamental review of the grants scheme, define / agree the role of the different officers in the Sports and Arts Service within the governance framework relating to grants, to put the Service in a position to ensure that funding priorities are clearly aligned to decision making and that any potential for vulnerability to fraud is mitigated. (H) - For all new grant schemes, ensure that a complete audit trail is maintained to support the decision-making process in relation to the grant awards made. (H) - Following the completion of the fundamental review of the grants scheme and the implementation of any outcomes from this, ensure that grant aid agreements (or equivalent) are put in place for all grants which are awarded. (H) - Put in place a requirement that in the event that other payments are made in 2019/20 to organisations with small budgets in place for core funding, approval must be given by the Head of Sports and Arts before the payment is processed and an appropriate audit trail maintained of this. (H) - As part of the fundamental review of the grants scheme, determine formal arrangements for monitoring the use of core grants, including a process for providing assurance to senior management within the Sports and Arts Service on the results of this monitoring. (H) - Develop a structured process for evaluating completed grant schemes and reporting the results of this to senior management within the Sports and Arts Service. (M) <p>Opinion: Limited Assurance</p> <p>Actions Agreed – risk level high (H) or medium (M):</p> <ul style="list-style-type: none"> • Ensure that the roles of officers within the governance framework for grants is clearly documented and put into operation. (H) • Ensure that all grant payments are subject to review / approval by the Head of Sport, Culture and Destination Services. (H) • Ensure that formal arrangements for monitoring the use of core grants are developed as planned, including a process for providing assurance to senior management. (H) • Ensure that a structured process for evaluating completed grant schemes and reporting the results of this to senior management is developed as planned. (M)
Number of Actions	6								
Implemented	2								
No Progress	0								
On-going	4								

Audit Review / Actions Due / Responsible Officer(s)	Key Findings								
Resourcelink Self Service Delegated Authority Follow Up Review July 2021 HR Payroll Support Manager A summary of progress made against the agreed actions is shown below: <table border="1" data-bbox="137 700 541 874"> <tr> <td>Number of Actions</td> <td>4</td> </tr> <tr> <td>Implemented</td> <td>0</td> </tr> <tr> <td>No Progress</td> <td>3</td> </tr> <tr> <td>On-going</td> <td>1</td> </tr> </table>	Number of Actions	4	Implemented	0	No Progress	3	On-going	1	<p>Overall Objective: To provide assurance that agreed actions have been implemented as planned and there are now robust systems in place to manage delegations within the self service function of Resourcelink.</p> <p>Recommendations followed up:</p> <ul style="list-style-type: none"> - Develop and implement a clear set of protocols to provide governance over the use of delegated authority within Resourcelink. (H) - Develop arrangements to gain assurance that delegations are used in accordance with protocols. (H) - Take action to enable accurate and meaningful management information to be produced from Resourcelink on the use of delegated authority and use this to monitor the use of delegated authority. (H) - As part of the development of protocols to underpin the use of delegated authority, ensure that they include appropriate rules regarding separation of duties and levels at which delegations should operate. (H) <p>Opinion: Limited Assurance</p> <p>Actions Agreed – risk level high (H) or medium (M):</p> <ul style="list-style-type: none"> • Following the new delegation functionality becoming operational, ensure that a clear set of protocols to provide governance over the use of delegated authority within Resourcelink are developed and introduced. (H) • Once introduced, develop arrangements to gain assurance that delegations are used in accordance with protocols. (H) • Following the transition to reporting through the data warehouse ensure accurate and meaningful management information is produced from Resourcelink on the use of delegated authority and use this to monitor the use of delegated authority. (H) • As part of the development of protocols to underpin the use of delegated authority, ensure that they include appropriate rules regarding separation of duties and levels at which delegations should operate. (H)
Number of Actions	4								
Implemented	0								
No Progress	3								
On-going	1								

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Coventry City Council

Public report

Report to

Audit and Procurement Committee

25th January 2021

Name of Cabinet Member:

Cabinet Member for Policy and Leadership – Councillor G Duggins

Director approving submission of the report:

Director of Finance

Ward(s) affected:

City Wide

Title:

Annual Fraud and Error Report 2019-20

Is this a key decision?

No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with a summary of the Council's anti-fraud and error activity undertaken by the Internal Audit Service for the financial year 2019-20.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti-fraud and error activity undertaken in the financial year 2019-20.

List of Appendices included:

None

Background papers:

None

Other useful documents:

Half Yearly Fraud and Error report 2019-20

<https://edemocracy.coventry.gov.uk/ieListDocuments.aspx?CId=553&MId=12092&Ver=4>

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee.

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:

Annual Fraud and Error Report 2019-20

1. Context (or background)

- 1.1 Fraud in the public sector has a national focus through the publication of "Fighting Fraud and Corruption Locally - The Local Government Counter Fraud and Corruption Strategy". Whilst the national strategy states that the level of fraud in the public sector is significant, the current trends in fraud activity includes areas which Coventry City Council does not have responsibility for, for example, social housing, and the levels of identified / reported fraud against the Council remain at relatively low levels, in terms of both numbers and value.
- 1.2 This report documents the Council's response to fraud and error during 2019-20 and is presented to the Audit and Procurement Committee in order to discharge its responsibility, as reflected in its terms of reference '*to monitor Council policies on whistle blowing and the fraud and corruption strategy*'.

2. Options considered and recommended proposal

- 2.1 The Internal Audit Service is responsible for leading on the Council's response to the risk of fraud and error. The work of the team has focused on four main areas during 2019-20, namely:

- Council Tax
- National Fraud Initiative
- Referrals and investigations considered through the Council's Fraud and Corruption Strategy
- Proactive work

A summary of the key activity that has taken place during 2019-20 is detailed below.

2.2 Council Tax – Work undertaken in this area has focused on the following:

- Reviewing Council Tax Exemptions / Discounts – A rolling programme of reviews is normally undertaken on an annual basis to provide an appropriate response to the inherent risk of fraud / error in the area, as the Council is reliant on the customer to report any changes in circumstances which would affect their entitlement to an exemption / discount. However, in 2019-20 only limited work has been undertaken in this area, given the focus of the Team's work on following up matches arising from the National Fraud Initiative (see 2.3 below). As a rolling programme of work, this is not viewed as significant. Notwithstanding this, the work undertaken has resulted in:

- 20 exemptions / discounts have been removed from customers' accounts. These exemptions / discounts were removed on the basis that the customer failed to report a change in circumstances.
- Revised bills have been issued amounting to approximately £28k.
- All of this money has now been paid to the Council.

Given that on an individual basis, the amounts involved were not sizeable, these cases have been treated as an error (as oppose to fraud). The Council's approach to this reflects the need to use resources in the most cost effective way. However, further investigation / action would be considered in the event that any individual case was considered to be significant (i.e. in excess of £10k).

- Council Tax Referrals – The Council receives referrals from both internal and external sources linked to concerns around the payment of council tax support or council tax discounts / exemptions. Table one below indicates the number of referrals by source in 2019-20.

Table One – Council Tax Fraud Referrals Received 2019-20

Source	Referrals 2019-20
C/F from 18/19	2
Housing Benefits	6
Council Tax	4
Members of the public	7
Other	11
Total	30

Whilst a significant number of cases are passed to the Department of Work and Pensions to investigate under agreed arrangements (i.e. where housing benefit is also in payment), the Internal Audit Service have validated six concerns to date in 2019-20, which has resulted in revised bills / overpayments of around £11k being issued, with £9.5k having been recovered to date.

- 2.3 National Fraud Initiative (NFI) – The NFI exercise is led by the Cabinet Office. The exercise takes place every two years and matches electronic data within and between public bodies, with the aim of detecting fraud and error. The results of the last exercise were released in January 2019 and identified approximately 10,000 matches for the Council to consider. A summary of the work undertaken in 2019-20 on these matches is detailed below:

- Around 4000 matches have been reviewed and processed. Given the high number of matches, priority has been given to known problem areas and key matches as judged by the Cabinet Office. However, changes introduced by the Cabinet Office in the risk rating approach and the release of additional matches under a pilot scheme using data held by the HMRC has required more focus to be given to this area of work in 2019-20.
- Table two overleaf highlights a breakdown of those areas where errors / overpayments have been identified. It is noted that the Council's work in this area was selected to be highlighted in the Cabinet Office's National NFI Report published in July 2020 as a case study to illustrate the effectiveness of the NFI in tackling fraud and error. As such the work undertaken represents recognised good practice:

Table Two – Breakdown of National Fraud Initiative results April 2019 to March 2020

Match type	Number of errors / discrepancies	Issue	Overpayments
Housing benefit claimants to student loans	6	Housing benefit claimants who failed to declare their student loan	£48,000 (includes outcomes reported by the Department of Work and Pensions)
Housing benefit claimants to taxi drivers	1	Housing benefit claimant who failed to declare the correct date they started work as a taxi driver	£250
Housing benefit claimants to pensions	1	Housing benefit claimant who failed to declare their occupational pension	£12,000
Housing benefit claimants to personal alcohol licenses	2	Other issues leading to housing benefit overpayments identified from review of matches	£24,000 (£20,500 of this has been classed as un-recoverable)
Housing benefit claimants to deceased	3	Housing benefit claimants who had died and the Council were not aware of the correct date their tenancy ended	£600 (£250 of this has been classed as un-recoverable)
Pensions to deceased	1	The Council has continued to pay a pension after the individual had died	£1200
Council tax support to pensions	1	Other overpayment – review of the data match led to identification that the claimant had moved out of the address but the liability had not been updated	£1700
Council tax support to council tax support	1	A customer in receipt of council tax support moved out of the area and failed to notify the Council	£1500
Council tax support to personal alcohol licenses	1	Council tax support claimant who failed to declare their full income	£1500

Council tax support to housing tenancy	1	A customer in receipt of council tax support failed to declare they were resident in another area	£1800
Council tax support to deceased	6	Other overpayments – In all cases whilst the Council were already aware the claimant had deceased, review of the data match led to identification that other persons should have been liable for the council tax	£5700
Council tax support to HMRC earnings and capital	12	Council tax support claimants who had failed to declare employment	£66,100
Council tax support to HMRC household composition	22	Council tax support / housing benefit claimants where review identified that other persons should have been liable for the council tax / household income was not fully declared	£106,000
Duplicate invoices	2	Duplicate creditor payments	£5000
Council tax to HMRC household composition	4	Council tax payers where review identified changes in liability / entitlement to discounts / benefits	£4800
Total	64		£280,150

- Whilst the NFI exercise takes place every two years, Council Tax matches relating to the award of single person discounts are received on an annual basis as they are matched to the new electoral register which is published each year. In 2019-20, Internal Audit have completed the work started in 2018-19 to follow up those matches relating to council tax bands D and above and followed up matches from the 2019-20 exercise. In total, a further 21 single person discounts were cancelled in 2019-20. This has resulted in revised bills / overpayments being issued of around £20k.

2.4 Referrals and Investigations – From time to time, the Internal Audit Team receive referrals or are asked to assist with investigations relating to employee misconduct and other fraud against the Council involving external individuals. Table two below indicates the number of referrals by source in 2019-20, along with figures for the previous three financial years.

Table Two – Fraud Referrals Received between 2016-17 and 2019-20

Source	Referrals 2016-17	Referrals 2017-18	Referrals 2018-19	Referrals 2019-20
Whistle blower	5	2	3	3
Manager	15	23	21	16
External	1	5	2	1
Total	21	30	26	20

We need to be clear that we have no mechanism for determining the number of referrals the Council should receive on an annual basis and it is very difficult to anticipate or identify the reasons behind fluctuations in numbers. It is worth noting that this information only reflects referrals made in respect of concerns relating to fraud and corruption and does not include other matters raised under the Whistleblowing Policy. (Details of all concerns raised during 2019-20 under the Whistleblowing Policy, including those referenced here are provided in section 2.7 of this report.

- 2.4.1 Of the 20 referrals received in 2019-20, seven have led to full investigations. The reasons for referrals not resulting in a full investigation include (a) our initial assessment / fact finding does not find any evidence to support the allegations, (b) appropriate action has already been taken, and (c) the nature of the event means it is impractical to pursue further.
- 2.4.2 In addition to the seven investigations highlighted in 2.4.1 above, a further three investigations were carried forward from 2018-19. Of the ten investigations, nine related to fraud / theft or other activities linked to obtaining a financial benefit, whilst the other case involved a code of conduct issue.

One out of the total ten investigations is still on-going, whilst of the remaining nine:

- In one case, which related to Adult Social Care, action was taken to change the care provider being used. In addition, around £2k is being recovered from the provider.
- In two cases, action was taken to cease / reduce a direct payment being made to a service user within Adult Social Care.
- In one case, whilst there was insufficient evidence to pursue the matter under the Council's disciplinary process, other action was taken by management / Human Resources to manage wider employment risks which were identified in the course of the investigation.
- In one case involving an external fraud against the Council, it was impractical to pursue the matter further. However, as a result of the investigation, a number of control improvements were identified and implemented in order to provide a robust response to the increased risk of fraud in this area. As a result, the Council prevented a further five attempts during the year to commit the same type of fraud.
- In one case, the officer left their post during the disciplinary process.
- In one case, the officer was dismissed from the Council's employment.

- In two cases, the allegation was found not to have been substantiated, although in both cases, control improvements were identified and implemented.

2.5 Proactive work – The Council's response to fraud also considers an element of proactive work to ensure that all key fraud risks are considered. In 2019-20, this work has included:

- Continuing delivery of face to face awareness sessions with staff from Adult Social Care in relation to direct payment fraud.
- Participation in a regional workshop to assist in development of the new national fraud and corruption strategy for local government.

2.6 Significant frauds - Within the International Auditing Standards, there are clear expectations around the level of oversight that the Audit and Procurement Committee should have in relation to the risk of fraud within the Council. This includes an expectation that appropriate detail is provided around significant fraud. We have applied the following principles when defining significant fraud:

- A financial impact in excess of £10,000.
- Frauds of under £10,000 can be included if the Chief Internal Auditor considers this justified by the nature of the fraud.
- In terms of establishing when a fraud has occurred, this is normally defined as occurring when the disciplinary process has been concluded, although in cases not involving employees, this will be linked to other management action, such as criminal prosecution.

In the period April 2019 to March 2020, no significant frauds have been identified.

2.7 Whistleblowing - During 2019-20, the Council received six whistleblowing disclosures. A summary of the disclosures made by type and the response is provided in Table Three below. Whilst all concerns are taken seriously, the response will differ on a case by case basis. In some cases, if the disclosure has been made anonymously and insufficient details have been provided, the Council may be restricted in the action it can take. However, typically a preliminary fact-finding investigation will be undertaken which if required, will result in a full investigation and formal action being considered.

Table Three –Whistleblowing disclosures 2019-20

Number	Nature of concern (grounds for whistleblowing)	Response
1	Health and Safety	Substantiated – additional / remedial works undertaken to address issues raised. Local procedure developed to prevent re-occurrence of similar issues.
2	Fraud	Not substantiated
3	Fraud	Investigation on-going
4	Other	No further action – did not satisfy grounds for whistleblowing. Employee advised of appropriate route to raise concern.
5	Breach of a legal obligation	Investigation on-going
6	Fraud	Not substantiated

- 2.7.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Fraud and Corruption Tracker provides annual benchmarking information relating to counter fraud activity across all local authorities. In the 2019 survey, respondents reported a total of 755 whistleblowing cases. The figures reported indicate that the number of disclosures received by the Council is comparable to the national average of six whistleblowing disclosures per local authority. It is also worth noting that employees do not have to use the Whistleblowing Policy to raise concerns and are able to resolve matters using other routes if they wish to do so, for example through discussion with their line manager or reporting concerns to one of the “prescribed persons” set out in the Public Interest Disclosure (Prescribed Persons) Order 2014, such as the Health and Safety Executive.
- 2.7.2 In 2019-20, the Council launched a campaign “I have a concern” to promote to employees’ different ways in which they can raise concerns about work, including how to raise an issue through the whistleblowing process.

3. Results of consultation undertaken

- 3.1 None

4. Timetable for implementing this decision

- 4.1 There is no implementation timetable as this is a monitoring report.

5. Comments from the Director of Finance and the Director of Law and Governance

5.1 Financial Implications

All fraud has a detrimental financial impact on the Council. In cases where fraud is identified, recovery action is taken to minimise the impact that such instances cause. This also includes action, where appropriate, to make improvements to the financial administration arrangements within the Council as a result of frauds identified. In total, during 2019-20, around £340k has been identified from the work of Internal Audit in relation to fraud and error and is subject to the Council’s standard arrangements for recovery of monies owed (unless otherwise stated.)

5.2 Legal implications

The Council has a duty under S151 of the Local Government Act to make arrangements for the proper administration of their financial affairs. To effectively discharge this duty, these arrangements include Council policies and procedures which protect the public purse through managing the risk of fraud and error.

All cases are conducted in line with the Data Protection Act 2018 and if appropriate are referred to the Police for investigation.

6. Other implications

6.1 How will this contribute to achievement of the Council's plan?

The scope and content of this report is not directly linked to the achievement of key Council objectives, although it is acknowledged that fraud can have a detrimental financial impact on the Council.

6.2 How is risk being managed?

The risk of fraud is being managed in a number of ways including:

- Through the Internal Audit Service's work on fraud, which is monitored by the Audit and Procurement Committee.
- Through agreed management action taken in response to fraud investigations and / or proactive reviews.

6.3 What is the impact on the organisation?

Human Resources Implications

Allegations of fraud made against employees are dealt with through the Council's formal disciplinary procedure. The Internal Audit Service are fully involved in the collation of evidence and undertake, or contribute to, the disciplinary investigation supported by a Human Resources representative. Matters of fraud can be referred to the police concurrent with, or consecutively to, a Council disciplinary investigation.

6.4 Equalities / EIA

Section 149 of the Equality Act 2010 imposes a legal duty on the Council to have due regard to three specified matters in the exercise of their functions:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The "protected characteristics" covered by section 149 are race, gender, disability, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment. The duty to have due regard to the need to eliminate discrimination also covers marriage and civil partnership.

The Council acting in its role as Prosecutor must be fair, independent and objective. Views about the ethnic or national origin, gender, disability, age, religion or belief, political views, sexual orientation, or gender identity of the suspect, victim or any witness must not influence the Council's decisions.

6.5 Implications for (or impact on) Climate Change and the environment

No impact

6.6 Implications for partner organisations?

None

Report author(s):

Name and job title:

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Chief Internal Auditor

Service:

Finance

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Contributor/approver name	Title	Service	Date doc sent out	Date response received or approved
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Michelle Salmon	Governance Services Officer	Law and Governance	7/1/2021	8/1/2021
Paul Jennings	Finance Manager Corporate Finance	Finance	7/1/2021	8/1/2021
Names of approvers: (officers and members)				
Barry Hastie	Director of Finance	-	7/1/2021	12/01/21
Councillor G Duggins	Cabinet Member for Policy and Leadership	-	12/01/21	14/01/21

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Coventry City Council

Public report

A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of a significant fraud required to be kept private in accordance with Schedule 12A of the Local Government Act 1972 as amended. The grounds for privacy are that it contains which is likely to reveal the identity of an individual. The public interest in maintaining the exemption under Schedule 12A outweighs the public interest in disclosing the information.

Report to

Audit and Procurement Committee

25th January 2021

Name of Cabinet Member:

Cabinet Member for Policy and Leadership - Councillor G Duggins

Director approving submission of the report:

Director of Finance

Ward(s) affected:

City Wide

Title:

Half Yearly Fraud and Error Report 2020-21

Is this a key decision?

No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with a summary of the Council's anti-fraud and error activity undertaken by the Internal Audit Service during the financial year 2020-21 to date.

Recommendation:

The Audit and Procurement Committee is recommended to note and consider the anti-fraud and error activity undertaken during the first half of the financial year 2020-21 (subject to consideration of the private report on significant fraud.)

List of Appendices included:

None

Background papers:

None

Other useful documents:

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee.

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:

Half Yearly Fraud and Error Report 2020-21.

1. Context (or background)

- 1.1 Fraud in the public sector has a national focus through the publication of "Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy". Whilst the national strategy states that the level of fraud in the public sector is significant, the current trends in fraud activity includes areas which Coventry City Council does not have responsibility for, for example, social housing, and the levels of identified / reported fraud against the Council remain at relatively low levels, in terms of both numbers and value.
- 1.2 Notwithstanding the above, it is recognised that the risk of fraud during emergency situations such as the pandemic is higher than at other times. This includes an inherent risk of fraud in emergency programmes which local authorities have been required to administer on behalf of government, particularly in relation to grants paid to businesses. This risk has been explicitly acknowledged by government in guidance issued to local authorities. As such, the Internal Audit Service have specifically included this within its anti-fraud work undertaken in 2020-21.
- 1.3 This report documents the Council's response to fraud and error during the first half of the financial year 2020-21 and is presented to the Audit and Procurement Committee in order to discharge its responsibility, as reflected in its terms of reference '*to monitor Council policies on whistle blowing and the fraud and corruption strategy*'.

2 Options considered and recommended proposal

- 2.1 The Internal Audit Service is responsible for leading on the Council's response to the risk of fraud and error. The work of the team has focused on three main areas during 2020-21, namely:
 - Business Support Grants
 - National Fraud Initiative
 - Referrals and Investigations considered through the Council's Fraud and Corruption Strategy

A summary of the key activity that has taken place during 2020-21 to date is detailed below.

- 2.2 Business Support Grants - In response to Covid-19, the government announced there would be support for businesses in the form of grant funding schemes. Whilst local authorities are required to administer these schemes on behalf of government, the Council remains responsible for ensuring the proper administration of financial affairs within the local authority, including these grants. From an anti-fraud perspective, there are two important points to note in relation to these schemes:
 - The increased risk of fraud / error as highlighted in section 1.2 of this report.

- The need to ensure that grants are paid to businesses on a timely basis, with low friction controls required pre-payment to enable local authorities to make payments as quickly as possible and further reliance placed on post-event assurance to effectively manage the risk of fraud.

2.2.1 Internal Audit have given advice to service areas on appropriate low friction controls as part of the grant application and assessment process, including for example, upfront fraud prevention clauses. In addition, the Internal Audit Service have led on the post-event assurance process, which has encompassed the following:

- Undertaking risk assessments in relation to each grant scheme to identify specific fraud risks.
- Using the results of risk assessments to develop assurance plans to mitigate against residual risks.
- Undertaking post-event assurance checks and reporting on outcomes to Government on a monthly basis. This has included the use of Spotlight, the Government's digital assurance tool, and other open-source checks.
- Where assurance checks identify potential fraud or error in grant payments, co-ordinating investigations and ensuring appropriate action is taken (e.g. reclaiming funds.)

2.2.2 During the period April to September 2020, this work focused on three grant schemes; the Small Business Grant Fund, the Retail Hospitality and Leisure Grant Fund and the Discretionary Grant Fund. In total, payments amounting to around £51 million have been made under these schemes, providing support to over 4500 businesses, with resources for post-event assurance work allocated both within the Internal Audit Plan and the wider corporate fraud and error resource within the Service. The majority of the work on these schemes is now complete. Table One below summarises the results in respect of fraud / error identified (these figures also include cases dealt with directly by the Business Rates/Economic Development Team):

Table One – Business Supports Grants Fraud and Error

	Number of cases	Value	Recovered to date
Grants classified as fraudulent	25	£300k	£90k
Grants classified as ineligible for funding	28	£350k	£274k

2.2.3 In addition to the claw back of funds paid fraudulently / in error, action has been taken to report suspected organised, large scale and systematic fraud to appropriate national agencies. This includes a number of cases whereas a result of effective intelligence sharing across the Regional Counter-Fraud Group, timely action was taken to prevent a large-scale cross boundary impersonation fraud, amounting to £400k.

2.2.4 The Department of Business, Energy and Industrial Strategy have confirmed that local authorities will not be held financially accountable for any erroneous payments which are not recovered, subject to Councils' having taken reasonable steps to manage the risk of fraud and taking appropriate action to recover overpayments. This position is reflected

within the monthly financial returns submitted to Government regarding grant expenditure and the Council is continuing to actively pursue overpayments.

- 2.2.5 Whilst those cases which have been identified as fraudulent / ineligible is low in comparison with the overall number / value of grants awarded (around 1%), it is nonetheless important that appropriate action is taken to provide effective fraud control and protect the public purse. During the course of the pandemic, the government have announced further grant schemes for businesses and updates on the assurance work linked to these will be provided in future reports to the Audit and Procurement Committee.
- 2.3 National Fraud Initiative (NFI) – The NFI exercise is led by the Cabinet Office. The exercise takes place every two years and matches electronic data within and between public bodies, with the aim of detecting fraud and error. Our work in 2020-21 has been focused on collating and submitting the datasets for the next exercise. This was completed in early October 2020, with eight datasets submitted. We expect the matches to be released for investigation in February 2021. The Cabinet Office have also responded to the increased risk of fraud in covid-19 emergency relief funding and have extended its remit initially to include data matching on grants paid to businesses. This dataset is currently being collated and will be submitted by the end of January 2021, with the results expected later in the year.
- 2.4 Referrals and Investigations – From time to time, the Internal Audit Team receive referrals or are asked to assist with investigations relating to employee misconduct and other fraud against the Council involving external individuals. Table two below indicates the number of referrals by source in 2020-21, along with figures for the previous three financial years.

Table Two - Fraud Referrals Received between 2017-18 and 2020-21

Source	Referrals 2017-18	Referrals 2018-19	Referrals 2019-20	Referrals 2020-21 to date
Whistle blower	2	3	3	1
Manager	23	21	16	9
External	5	2	1	2
Total	30	26	20	12

It is important to note that there is no mechanism for determining the number of referrals the Council should receive on an annual basis and it is very difficult to anticipate or identify the reasons behind fluctuations in numbers. It is worth noting that this information only reflects referrals made in respect of concerns relating to fraud and corruption and does not include other matters raised under the Whistleblowing Policy.

- 2.4.1 Of the twelve referrals received, seven have led to full investigations. The reasons for referrals not resulting in a full investigation include (a) our initial assessment / fact finding does not find any evidence to support the allegations (b) appropriate action has already been taken, and (c) the nature of the event means it is impractical to pursue further.
- 2.4.2 In addition to the seven investigations highlighted in 2.4.1 above, one further investigation was carried forward from 2019-20. Of the eight investigations, six related to fraud / theft or other activities linked to obtaining a financial benefit, whilst other two cases involved a code of conduct issue.

Four out of the eight investigations are still on-going, whilst of the remaining four:

- In one case, the officer was dismissed from the Council's employment.

- In one case, the officer left their post during the disciplinary process.
- In two cases, the concern was not substantiated.

2.5 Significant frauds - Within the International Auditing Standards, there are clear expectations around the level of oversight that the Audit and Procurement Committee should have in relation to the risk of fraud within the Council. This includes an expectation that appropriate detail is provided around significant fraud. We have applied the following principles when defining significant fraud:

- A financial impact in excess of £10,000.
- Frauds of under £10,000 can be included if the Chief Internal Auditor considers this justified by the nature of the fraud.
- In terms of establishing when a fraud has occurred, this is normally defined as occurring when the disciplinary process has been concluded, although in cases not involving employees, this will be linked to other management action, such as criminal prosecution.

In the period April 2020 to September 2020, one significant fraud has been concluded. Details of this are provided in a private report to the Audit and Procurement Committee.

2.6 Council tax – Whilst the Internal Audit Service normally undertake a rolling programme of reviews of council tax exemptions and discounts, this work has not been progressed during the period April to September 2020, given the focus on business grant work. As a rolling programme of work, this is not viewed as significant and some work in this area has commenced in the second half of the year.

2.6.1 Council Tax Referrals – The Council receives referrals from both internal and external sources linked to concerns around the payment of council tax support or council tax discounts / exemptions. Table three below indicates the number of referrals received by source during the first half of the financial year 2020-21.

Table Three – Council Tax Fraud Referrals Received April to September 2020

Source	Referrals 2020/21 to date
Housing Benefits	6
Council Tax	1
Members of the public	1
Other	6
Total	14

Whilst appropriate cases are passed to the Department of Work and Pensions to investigate under agreed arrangements (i.e. where housing benefit is also in payment), the Internal Audit Service have validated two concerns in 2020-21, which has resulted in revised bills / overpayments of around £14k being issued, of which £8K has been recovered to date.

3. Results of consultation undertaken

3.1 None

4. Timetable for implementing this decision

4.1 There is no implementation timetable as this is a monitoring report.

5. Comments from the Director of Finance and the Director of Law and Governance

5.1 Financial Implications

All fraud has a detrimental financial impact on the Council. In cases where fraud / error is identified, recovery action is taken to minimise the impact that such instances cause. This also includes action, where appropriate, to make improvements to the financial administration arrangements within the Council as a result of frauds identified.

5.2 Legal implications

The Council has a duty under section 151 of the Local Government Act 1972 to make arrangements for the proper administration of their financial affairs. To effectively discharge this duty, these arrangements include Council policies and procedures which protect the public purse through managing the risk of fraud and error.

All cases are conducted in line with the Data Protection Act 2018 and if appropriate are referred to the Police for investigation.

6. Other implications

6.1 How will this contribute to achievement of the Council's plan?

The scope and content of this report is not directly linked to the achievement of key Council objectives, although it is acknowledged that fraud / error can have a detrimental financial impact on the Council.

6.2 How is risk being managed?

The risk of fraud is being managed in a number of ways including:

- Through the Internal Audit Service's work on fraud which is monitored by the Audit and Procurement Committee.
- Through agreed management action taken in response to fraud investigations and / or proactive reviews.

6.3 What is the impact on the organisation?

Human Resources Implications

Allegations of fraud made against employees are dealt with through the Council's formal disciplinary procedure. The Internal Audit Service are fully involved in the collation of evidence and undertake, or contribute to, the disciplinary investigation supported by a Human Resources representative. Matters of fraud can be referred to the police concurrent with, or consecutively to, a Council disciplinary investigation.

6.4 Equalities / EIA

Section 149 of the Equality Act 2010 imposes a legal duty on the Council to have due regard to three specified matters in the exercise of their functions:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The "protected characteristics" covered by section 149 are race, gender, disability, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment. The duty to have due regard to the need to eliminate discrimination also covers marriage and civil partnership.

The Council acting in its role as Prosecutor must be fair, independent and objective. Views about the ethnic or national origin, gender, disability, age, religion or belief, political views, sexual orientation, or gender identity of the suspect, victim or any witness must not influence the Council's decisions.

6.5 Implications for (or impact on) Climate Change and the environment

No impact

6.6 Implications for partner organisations?

None

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Agenda Item 12

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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