

Coventry City Council
Minutes of the Meeting of the Audit and Procurement Committee held at 2.30 pm
on Monday, 28 June 2021

Present:

Members: Councillor R Lakha (Chair)
Councillor M Ali
Councillor J Blundell
Councillor A Hopkins (Substitute for Councillor G Hayre)
Councillor B Singh
Councillor R Singh

Employees (by Directorate):

Finance P Jennings, K Tyler

Law and Governance M Salmon

Apologies: Councillor R Brown (Cabinet Member for Strategic Finance
and Resources) - Invited
Councillor G Hayre
Councillor T Sawdon

Public Business

1. Declarations of Interest

There were no disclosable pecuniary interests.

2. Minutes of Previous Meeting

The minutes of the meeting held on 28th June 2021 were agreed as a true record. There were no matters arising.

3. Outstanding Issues

The Audit and Procurement 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 anticipate date for consideration of the Matter. In respect of item 2 relating to 'Update report on the key issues highlighted in the Audit Findings Report be submitted to a future meeting of the Committee', and item 3 relating to 'further detail of planned IT audit work for 2021/22 be submitted to the Committee when the Annual Audit Plan is submitted', the Committee were advised that these matters would be dealt with in reports being considered at this meeting.

Appendix 2 of 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.

4. **Work Programme 2021/22**

The Audit and Procurement 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 Municipal Year 2021/2022.

The Committee noted that the items headed 'Audit Findings Report 2019-20 (Grant Thornton)' and 'Draft Statement of Accounts 2020-2021' had been re-scheduled for consideration from the 26th July meeting to 27th September 2021 meeting and the Work Programme would be revised accordingly.

RESOLVED that the Audit and Procurement Committee notes the revised Work Programme for 2021/2022.

5. **2019/20 Accounts Update**

The Audit and Procurement Committee considered a report of the Director of Finance that provided an update on the delayed 2019-20 accounts closedown, including responses to recommendations from the External Auditors and matters that had arisen since the last update to Committee. It was noted that Grant Thornton would provide their own official update on any outstanding issues at the conclusion of the audit. An Appendix to the report provided a summary of the issues resolved and were in-Progress.

The local government accounts reporting deadlines for 2019/20 were extended due to the Covid pandemic and following the passing of the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. The revised arrangements set out were for councils to publish their draft accounts by 31st August 2020 and to have their final Statement of Accounts audited and published by 30th November 2020. The Council published its draft accounts on 26th June 2020 which provided a five-month window in which to have the accounts audited and submitted to the Audit and Procurement Committee for final approval. Grant Thornton's draft Audit Findings Report (AFR) was submitted to Committee on 30th November 2020 and highlighted a higher than normal number of issues and adjustments for the Council's accounts, the large majority of which had been accepted by the Council. The Committee resolved to receive an update report on the key issues highlighted in the report to a future meeting.

The Committee was also informed that it wasn't possible for the Council's accounts to be signed off at that time. The external auditors reported a small number of issues remained outstanding which had prevented the final audit opinion from being issued. The AFR stated that the auditor's work was "substantially complete" and there were no matters which they were aware of that would require modification of their audit opinion or material changes to the financial statements. The outstanding matters outlined were receipt of assurance

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

Subsequent external audit activity undertaken to enable the Council's accounting statement to be finalised identified further issues that had been the subject of significant work since November. This had caused further delay to completion of the 2019/20 accounts and had had an impact on work required for the 2020/21 accounts. This report provided an update on this position.

The report set out the Council's response to the Audit Findings Report brought to the 30th November 2020 meeting and outlined the auditor queries that had been the subject of additional work since that date.

The responses fell into the following categories:

- a) Matters where Grant Thornton and the Council had agreed accounting adjustments (Items 4, 5 and 6) – all these would be incorporated into the final accounting statement.
- b) Areas where further information was outstanding (Items 1 and 2) – all outstanding information had been provided.
- c) Subjects where the Council was satisfied that its existing accounting approach was robust and defensible (Items 3, 10 and 11) – the Council would continue with its existing practice.
- d) Areas where Grant Thornton had recommended valuations to be completed (Items 4, 5, 7, 9) – external valuation experts have been appointed.
- e) Remaining areas where Grant Thornton had recommended further valuation work to be completed (Items 5, 8).

In addition to these, the Audit Findings Report included a number of lower level adjustments and amendments, all of which were accepted at the time.

The two areas where the Council needs to determine its approach going forward were in respect of investment property valuations (Appendix 1 item 5) and the valuation of assets held by Tom White Waste Limited in the Council's Group Accounts (Appendix 1 item 8).

Following the undertaking of an in-depth review undertaken by Grant Thornton the main issues raised as part of the review were:

- a) Extensive challenge on the nature of the Council's relationship and accounting treatment of UKBIC (UK Battery Industrialisation Centre), the arrangements and accounting transactions during its construction phase, its treatment in the Council's Single Entity Accounts and Group Accounts and the value of UKBIC as an investment on the Council's balance sheet. The nature of the relationship between UKBIC and the Council is distinctly non-standard from the Council's perspective and includes several questions of a quasi-legal nature.
- b) The treatment of de-recognition in the valuation of the Council's infrastructure assets. Derecognition refers to the amount of an existing assets value that needed to be removed from the accounts when an existing asset was replaced

- by a new asset (particularly for instance when highways works were undertaken).
- c) The treatment of property asset value reduction for UKBIC upon completion as either impairment or downward re-valuation. This distinction was important because it was reported in different areas of the accounts and the Council had been asked to justify and disclose adequately its re-valuation treatment.
 - d) The overall impact of changes in property valuations has also led to consideration of whether the Council needed to undertake a Prior Period Adjustment (PPA) to the accounts. A PPA was sometimes required where errors or changes to previous accounting treatments were identified which are judged to be so significant that their impact needed to be restated in relation to previous years' accounts and the opening balances of the year in question. The combined impact of property valuation queries was such that the need for a PPA was now thought to be required.

Further consideration and discussion had arisen as a result of the lateness of the accounts in relation to circumstances that existed or facts that emerged subsequently relating to the financial period in question. In addition, issues had emerged in closing-down the following year's accounts (for 2020/21) relating to accounting treatments used previously and whether balances had been brought forward correctly. These discussions had not resulted in changes to the 2019/20 accounts.

RESOLVED that the Audit and Procurement Committee notes the progress made since the last report on these matters, the current status of the 2019/2020 accounting process and the issues outstanding to be resolved.

6. Internal Audit Annual Report 2020-21

The Audit and Procurement Committee considered a report of the Director of Finance that summarised the Council's Internal Audit activity for the period April 2020 to March 2021 against the agreed Audit Plan for 2020-2021 and the Public Sector Internal Audit Standards. The report also provided the Audit and Procurement Committee with the Chief Internal Auditor's opinion on the overall adequacy and effectiveness of Coventry City Council's risk management, internal control and governance arrangements for the financial year 2020-2021. Appendices to the report provided: details of the Audits completed in 2020-2021; the Summary findings from key audit reports; and a Cyber / IT Security briefing note.

The Audit and Procurement Committee approved the Council's Internal Audit Plan for 2020-2021 at its meeting on the 30th November 2020. During the last financial year, the Committee received a progress report summarising completed audit activity in January 2021. This report detailed the performance of the Internal Audit Service against the Plan for 2020-2021, which was presented in order for the Audit and Procurement Committee to discharge its responsibility, as reflected in its term of reference - "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 was set out in the following sections:

- Assessment of the performance of the Internal Audit Service against its key targets.
- The results of the Quality Assurance and Improvement Programme and the Chief Internal Auditor's statement on conformance with the Public Sector internal Audit Standards.
- A summary of the audit activity in 2020-21 and highlighting issues that have not been reported to the Audit and Procurement Committee previously and are relevant to the overall opinion.
- The Chief Internal Auditor's opinion on the overall adequacy and effectiveness of Coventry City Council's risk management, internal control and governance arrangements.

The key target for the Internal Audit Service was to complete 90% of its agreed work plan by the 31st March 2021. Whilst the plan was originally developed on the basis of an estimate of 550 available audit days, this was subsequently slightly amended to 500 days following a reassessment of available resources in quarter four, and reflected the fact that establishing an accurate resource position was more difficult when changes in staffing occurred during the year. As a result, the performance of the Service had been assessed against the revised audit plan of 500 days. The service delivered 91% of the plan.

As a result of the pandemic and the need to prioritise work which had been required to support the Council's response to Covid-19, the Service had been unable to progress the improvement actions from the 2019-2020 improvement plan. These actions had therefore been carried forward to this year's plan, along with new actions which had been identified during 2020-2021. Forthcoming progress against these actions would be included in future reports to the Committee.

Details of audit reviews carried out in the financial year 2020-2021 along with the level of assurance provided, were set out in an Appendix to the report.

A summary of the findings of key audits that had not already been reported to the Committee during the Municipal Year 2020-2021 were included in further Appendices to the report. In all cases, the relevant managers had agreed to address the issues raised in line with the timescale stated. The reviews would be followed up in due course and the outcome reported to the Committee.

In respect of follow up of disclosures made in the Internal Audit Annual Report 2019-20, in the previous annual report, the Chief Internal Auditor identified a number of areas where she believed significant control improvements were required. The report provided an update on each of these areas: Health and Safety Audit Programme; and IT Disaster Recovery.

The Committee agreed that the Council's IT Strategy be sent to Members of the Committee for their information. They also agreed that IT be requested to pursue Cyber Security Training for Elected Members and that Officers feedback to Members on the position regarding Cyber Insurance.

RESOLVED that the Audit and Procurement Committee considered and notes:

- 1) The performance of Internal Audit against the Audit Plan for 2020-21.**
- 2) The results of the Quality Assurance and Improvement Programme and the Chief Internal Auditor's statement on conformance with the Public Sector Internal Audit Standards.**
- 3) The summary findings of key audit reviews (attached at Appendix two to the report) that have not already been reported to Audit and Procurement Committee during municipal year 2020-21 and which are relevant to the opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment.**
- 4) The opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of Coventry City Council's risk management, internal control and governance arrangements.**

7. Internal Audit Plan 2021-22

The Audit and Procurement Committee considered a report of the Director of Finance that submitted the draft Internal Audit Plan for 2021-22, attached as an appendix to the report, to the Audit and Procurement Committee to allow the Committee to express its views on the extent and nature of the planned coverage.

In terms of proposed audit activities, the draft Internal Audit Plan documented the outcome of the audit planning process for 2021-2022. The report set out the mechanism for allowing the Audit and Procurement Committee to discharge its responsibility but also enabled them, as a key stakeholder of the Internal Audit Service, to comment on the content and scope of the proposed Internal Audit Plan.

The priorities of internal audit activity were determined through the development of an annual risk- based Internal Audit Plan. The report documented the planning process and identified the outcome of the process, namely the draft Internal Audit Plan for 2021-2022.

Key points to note from the results of the initial assessment of priorities included:

- a) The draft plan was based on an allocation of priorities against the current level of audit resources available. The resource requirements had been assessed taking into account the requirement to produce an annual audit opinion and the Council's overall assurance framework. Due to current vacancies in the Service, it was difficult at this stage to precisely define the overall level of resources that would be available for 2021-2022, however a current estimate had been made that there would be 650 days for audit and corporate fraud work, compared to 500 days in 2020-21. In the event that there was a significant change in the available audit days over the course of the year, flexibility would be retained in how these resources were utilised. Updates on the resource position and any resulting change to the audit plan would be provided in future reports to the Committee.

- b) In focusing the available resources to develop a plan which met the needs of the Council, the following approach had been taken:
- A documented risk assessment has been undertaken, which considered the Council's corporate risk register and key priorities as identified from consultation with Directors and other senior managers, alongside other priorities linked to areas of risk which have been highlighted by the Chief Internal Auditor. Where appropriate, an assessed risk level had been made. Where stated as medium rather than high, this generally reflected findings of previous audit reviews in the respective area / an initial assessment of the control environment.
 - A risk-based approach to the audit of schools, rather than a cyclical programme of audit work.
 - A flexible and responsive approach to issues highlighted by senior officers with dialogue to ensure resources were directed in accordance with their priorities.
 - A flexible approach to corporate fraud investigations, offering expert advice and support rather than undertaking the Investigating Officer role.
 - The need to continue to allocate some resource to supporting the administration and assurance requirements linked to the government's Covid-19 business related grants.

Other areas of planned work included:

- a) Corporate Risks – the focus of audit coverage in 2021-22 regarding the corporate risk register, was aligned to those areas where it was clear Internal Audit could make a contribution to the management of the risks, including emerging issues linked to activities. This included reviews of budgetary control, equality and diversity in recruitment, and arrangements linked to the prevention and relief of homelessness.
- b) ICT – The programme of work of IT audit work was established through an IT audit needs assessment which identified areas of focus over a three-year period (subject to annual review.) In 2021-2022, the areas which had been agreed were File Storage (optimising and making the best use of available platforms), Service Desk (assessment of the new system for raising IT issues and associated processes), and Storage Area Network (a modernisation project.)
- c) Council / Audit priorities – this incorporated audit work linked to specific priorities which had a corporate impact such as purchasing cards, IR35 compliance and climate change.
- d) Regularity – this included work to meet the assurance requirements of grant funding received by the Council, and co-ordination of the Annual Governance Statement and declarations of interest exercise.
- e) Directorate risks – this audit area included those issues highlighted through dialogue with Directors which could affect the achievement of operational objectives. In 2021-2022 identified areas include Public Health information management system, Fleet Services and buildings statutory compliance.

As a result, it is believed that the draft Audit Plan for 2021-22 was sufficient for the work required to report on governance, the management of risks and internal controls in the year and to prepare our annual opinion and report.

The Committee agreed that consideration be given to a future audit of Customer Services performance and also that equality and diversity remained a focus in next year's Audit Plan.

RESOLVED that the Audit and Procurement Committee notes the content and scope of the draft Internal Audit Plan for 2021-22, attached as Appendix 1 to the report, and approves the Plan.

8. **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.

(Meeting closed at 5.15 pm)