

**Audit and
Procurement
Committee
Annual Report to
Council
2013-14**

To be considered at the City Council meeting
on the 9th September, 2014

Audit and Procurement Committee Annual Report 2013-14

Introduction by Chair of Audit and Procurement Committee

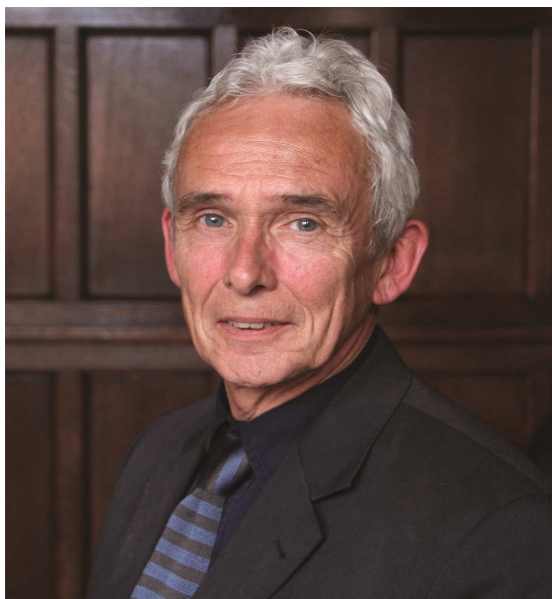
In May 2014, the Council appointed me as the new Chair of the Audit and Procurement Committee. I am looking forward to ensuring that the Committee continues to make a positive contribution to the overall governance arrangements within the Council, given the unprecedented financial challenges that it continues to face.

In looking back to 2013-14, I am pleased to report that the Committee has continued to discharge its key responsibility effectively, namely providing independent assurance on the adequacy of the Council's risk management framework, the internal control environment, and the integrity of the financial reporting and annual governance processes. Additionally, over the last year, it has developed an approach to providing appropriate oversight of key procurement activity within the Council. In this context, I would like to acknowledge that this could not have been achieved without the significant contribution of both members and officers involved with the Committee.

It is also worth pointing out that this has been achieved at the same time that the Council has successfully implemented a new finance system (Agresso), without any adverse impact on either the workings of the Committee and / or on any of the key areas of which it provides oversight. Whilst this was always the plan, delivering against such expectations is never straightforward.

In looking forward to 2014-15 and beyond, the importance of an effective Audit and Procurement Committee remains critical. Whilst it is accepted that the financial constraints facing the Council will mean that the organisation will inevitably reduce in size, the Committee will need to ensure that this does not have a detrimental effect over the key functions that it oversees.

This report provides an overview of the Committee's activity during the municipal year 2013-14 and outlines the breadth of coverage by the Committee. I look forward to continuing this good work with colleagues over the coming year.



Councillor David Galliers
Chair, Audit and Procurement Committee

1 Activity of the Council's Audit and Procurement Committee

During 2013-14, the Council's Audit and Procurement Committee met on 11 occasions. Meetings were held in June, July (x2), August (x2), September, October and November 2013 as well as in January, February and April 2014.

The Committee receives a range of:

- Routine reports based on the clearly defined expectations of services / functions that report to the Audit and Procurement Committee, e.g. internal / external audit and financial management.
- Ad-hoc reports which focus on either a specific concern or developments that impact directly on the Committee.

The details of the reports considered in 2013-14 are expanded upon below.

1.1 **Accountancy** - The unaudited Statement of Accounts (including revenue and capital outturn) was considered by the Committee in July 2013 and then in September 2013, when the audited Statement of Accounts were approved by the Audit and Procurement Committee. Additionally, progress reports were received in respect of:

- The Council's performance against its revenue and capital budgets during 2013-14 (September 2013, January and April 2014).
- Treasury Management Update – This report was considered in January 2014 and focused primarily on providing oversight of the Council's investment activity. The report provided assurance that the Council was managing risk in this area appropriately, given the volatility in the financial sector. A further update was also considered in April 2014.
- Transformation Programme Financial Savings - A report was considered in October 2013 regarding progress against saving targets for the financial year 2013-14 and indicated a shortfall which was due in the main to the non-delivery of financial savings in the fundamental service review of the Children, Learning and Young People Directorate. It was identified that the shortfall was being managed through the Council's budgetary control process.

1.2 **External Audit** - The following reports were received from the Council's external auditors, Grant Thornton in 2013-14:

- Informing the Audit Risk Assessment – This report was considered in July 2013 for the 2012-13 accounts and again in April 2014 for 2013-14 accounts. A requirement of auditing standards is that specific areas must be considered as part of the external audit risk assessment. These include (a) fraud, (b) laws and regulations, (c) going concern, (d) accounting estimates and (e) related party transactions. The report outlined the Council's management responses to a series of questions on these issues. This was then approved by the Committee to demonstrate that the responses were consistent with their understanding on these matters.

- The Audit Findings for Coventry City Council - This report was considered in September 2013, and its purpose was to highlight the key matters arising from the audit of the Council's financial statements for the year ending 31 March 2013. The report concluded that, pending satisfactory clearance of outstanding matters:
 - An unqualified audit opinion would be provided on the Council's financial statements.
 - An unqualified value for money conclusion would be provided around the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Annual Audit and Inspection Letter - This was considered at the November 2013 meeting. The main focus being to summarise the findings from the 2012-13 audit and to formally document their conclusions in respect of the audit of the accounts and the Council's arrangements for securing value for money. The conclusions reached for both these areas were consistent with those indicated in the Audit Findings for Coventry City Council report considered in September 2013.

The report did identify four areas (i.e. medium term financial position, the delivery of the service changes and financial savings recommended in the fundamental service review in the Children, Learning and Young People Directorate, the replacement of the Council's finance system, and the impact on Arena Coventry Limited of its dispute with the owners of Coventry City Football Club) which the external auditors thought required focus by the Council in the next year.

- Certification of Claims and Returns Annual Report - This report was considered in February 2014 and summarised the findings from the certification of 2012-13 claims and returns that were subject to review by the external auditors. The report highlighted that only three grant claims were subject to external audit approval and whilst improvements in the administration of such grants had been maintained, two of the three claims had been qualified due to errors identified.
- 2013-14 Audit Plan - This report was considered in April 2014 and set out the work that Grant Thornton would undertake in respect of the audit of the Council's financial statements for the year ended 31 March 2014. It also documented the expected outputs that the Committee would receive from the external auditors.

1.3 **Internal Audit** - During the year, the Audit Committee received the following annual reports at the July and August 2013 meetings:

- Internal Audit Annual Report - This report had two main purposes:
 - To summarise the Council's Internal Audit activity for the period April 2012 to March 2013, against the agreed Internal Audit Plan for the same period.
 - To provide the Audit Committee with the Internal Audit and Risk Manager's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment. Based on the work of Internal Audit in 2012-13, the Internal Audit and Risk Manager concluded that 'moderate' assurance could be provided that there was generally a sound system of internal control in place to help the organisation meet its objectives.

- The Annual Review of the Effectiveness of the System of Internal Audit - This review led by the Council's Internal Audit and Risk Manager discharges a requirement of the Accounts and Audit Regulations that the Council "*at least once a year, conduct a review of the effectiveness of the system of Internal Audit*". The review focused on three areas – (1) the role of the Internal Audit and Risk Manager against the requirements stated in the CIPFA Statement on the Role of the Head of Internal Audit, (2) the approach of the Internal Audit Service in comparison with the Public Sector Internal Audit Standards, and (3) an updated assessment of the Council's Audit Committee arrangements against CIPFA recommended practice titled "Measuring the Effectiveness of the Council's Audit Committee". The Committee in considering the report endorsed the areas for development, which focused around areas (2) and (3) highlighted above.

Other Internal Audit reports considered during the year include:

- Progress reports on Internal Audit work - Monitoring reports were received in August and October 2013, as well as in February and April 2014. These reports provided updates on the performance of the Service, along with a summary of the key audits from a sample of high profile audit reviews carried out in the relevant periods. In considering these reports, the Committee agreed with the focus of improvements identified and the timescales agreed for implementation.
- Recommendation Tracking Report - In October 2013, a report on action taken by Council officers in implementing agreed audit recommendations was presented. This highlighted high levels of compliance with the implementation of agreed actions.
- Based on requests from the Audit and Procurement Committee, briefing notes were considered in relation to the audit of Council Tax Exemptions and Discounts. This was initially considered in August 2013 and the purpose of the report was to highlight action taken by management in response to the issues identified in the Internal Audit review of this area. Furthermore, it sought and received endorsement from the Committee to extend the initial project set up to consider this issue as this was viewed as critical in establishing the scale of the issue involved.

A further update was considered in April 2014. This highlighted that the project had just finished and had resulted in revised bills being generated to the value of around £117,000. In looking forward, two issues still need to be addressed, namely an assessment of resource requirements and a communication campaign aimed at reminding Coventry residents around their responsibility to report any changes in their circumstances if they are in receipt of a Council tax discount / exemption.

1.4 **Fraud** - The following fraud reports were considered in 2013-14:

- Annual Fraud Report - This report was considered by the Committee in August 2013 and summarised the Council's response to fraud activity for the financial year 2012-13, focusing on the work of both the Corporate Fraud and Benefit Fraud Teams.

- Half Yearly Fraud Update - A report was received in November 2013, focusing on the outcome of work by both the Corporate Fraud and Benefit Fraud Teams in the first six months of 2013-14.

Both these reports also provided updates on the government proposal to merge local authority benefit fraud teams with their counterparts based in the Department for Work and Pensions and Her Majesty Revenue and Customs, in order to create the Single Fraud Investigation Service (SFIS). The Council has now been advised that its Benefit Fraud Team will transfer to the SFIS in March 2015.

1.5 **Risk** - The following reports / briefing notes were considered in 2013-14:

- **NUCKLE** – In response to the fact that this project had been determined as a corporate risk, the Committee received a report in July 2013 to better understand the key issues facing this project. Due to the confidential nature of many of the issues raised, this was considered under the private agenda at the meeting. The issues raised were subsequently considered in a report to Cabinet in March 2014 which agreed that the scheme would now be delivered in two distinct packages.
- **Arena Coventry Limited** – In November 2013, the Committee received in private, a verbal update on the issues facing the Council arising from its financial restructuring of Arena Coventry Limited. The issues included financial and reputational matters and the Committee noted that the Council's ACL Shareholders' Panel met on a regular basis to address these. The Committee requested a further update in 2014-15.
- **Safeguarding Awareness** – The purpose of this report was to provide assurance to the Committee that action had now been taken in response to previous concerns raised with the Committee around the limited progress made in the Council's response to this risk. The report highlighted that progress had been made in the numbers receiving training although it was acknowledged that this remained a priority going forward.

1.6 **Procurement** – In response to the Committee's new remit for procurement matters, it was agreed that procurement be a standard agenda item at every meeting of the Committee. An initial report was considered in August 2013 and was then subsequently considered at all of the remaining meetings during the municipal year 2013-14. Information provided within such reports included a summary of procurement activity considered by the Procurement Board and Panels in the period, as well as an update on progress made in delivering agreed procurement saving targets. The Committee in considering these reports noted the content of reports and sought assurance around specific activity highlighted.

1.7 **Justify Expenditure Explain Performance (JEEP)** - The JEEP campaign was initially raised at the Committee meeting in June 2013 and a meeting was set aside in August 2013 to specifically consider issues raised through JEEP. Over the year, numerous reports were considered by the Committee. These reports fell into one of two different categories:

- Issues where action was taken by officers which did not require a decision from members. This included:

- Better use of functionality available through multi-functional devices (e.g. duplex printing, fax, scanning).
 - Saving energy through turning off devices at the end of the working day.
 - Reducing the reliance on agency staff.
 - Automating the process for submitting expense receipts.
 - Various IT suggestions.
- Reports on specific issues seeking the Committee's endorsement to pursue these matters further. These included:
 - Citivision Magazine.
 - Reducing the cost of producing leaflets.
 - Greater use of salary sacrifice scheme.
 - Paperless meetings.
 - Holiday purchase scheme.

A consolidated report on JEEP was considered in February 2014, which summarised action to date and how outstanding issues were going to be progressed. It was also highlighted that as a result of this campaign, cashable savings of £62,000 had been identified and captured for 2014-15.

1.8 **Other** - The following reports were also considered by the Committee in 2013-14:

- As part of the Annual Accounts process for 2012-13, the Internal Audit and Risk Manager co-ordinated the development of the Council's Annual Governance Statement. The Statement was presented in July 2013, and then approved by the Audit Committee in September 2013, following consideration of the audited Statement of Accounts. The outcome of this was the approval of the Statement by the Committee, which included the endorsement of a number of significant governance issues which required the Council's focus.
- Implications of Amended Pay Policy Statement 2013-14 - Whilst not within the terms of reference for the Committee, the Committee were asked to consider the consequence of a senior officer restructure including amendments to the Council's Pay Policy Statement. This was considered at a meeting in July 2013 as a private agenda matter.
- Annual Audit Letter Update (Audit 2011-12) – This report identified progress made and the current position with regard to the four issues raised the 2011-12 external audit Annual Audit Letter, These were:
 - Medium term financial position
 - Proposals for business rate reform
 - Council tax benefit reform
 - Replacement of the financial information system

The Audit and Procurement Committee agreed with the assessment of progress made and that the current position represented an appropriate response to the issues raised.

- Regulation of Investigatory Powers Act (RIPA) 2000 Annual Report – This report focused on providing oversight of the Council's compliance with this Act. In considering this report, the Committee also approved the

revised Regulation of Investigatory Powers Act 2000 Covert Surveillance & Covert Human Intelligence Sources Policy.

- Covert Surveillance of Employees Policy and Procedure – The Committee were asked to review this policy in November 2013 which covered the procedure for submitting and authorising applications for the covert surveillance of employees. After considering this report, the Committee recommended that the Cabinet Member (Community Safety & Equalities) approve this policy.
- Agency Workers and Interim Managers: Performance Management Report Quarter 2 2014-15 – At the request of Scrutiny Board One, this report was forwarded to the Committee for consideration in February 2014. The Committee noted the contents of this report.

1.9 Training and Awareness

In advance of considering the Statement of Accounts, a session was provided by the Corporate Finance Manager in June 2013 to aid the Committee in better understanding the accounts and, in particular, guiding members through what is a complex document.

2 Audit and Procurement Committee Priorities - There are still areas of development for the Audit and Procurement Committee, including:

- To ensure that the Committee operates in line with the recently revised recommended practice from CIPFA. Areas for development include:
 - To review the Committee's terms of reference.
 - To undertake an assessment against the core knowledge and skills framework (CIPFA guidance) expected of an Audit Committee to assist in the identification of individual training needs for members of the Committee.
 - To agree a mechanism to assess the effectiveness of the Audit and Procurement Committee in light of the increased expectations in the CIPFA guidance.
- To keep abreast of national developments and the potential impact that these may have on the operation of the Audit and Procurement Committee.

In 2014-15, the Audit and Procurement Committee's initial focus will be on ensuring that effective action is taken in response to the areas for improvement highlighted in the Annual Governance Statement for 2013-14. From an audit perspective, three areas were identified in the Statement as a result of work carried out by the Council's Internal Auditors. These relate to the need to:

- a) Ensure that any potential impacts that the transfer of the Benefit Fraud Team to the Department of Work and Pensions in March 2015 has on fraud arrangements in the Council are identified and managed.
- b) Gain assurance that all functionality available through the new Agresso financial system is both utilised and embedded in practice.

- c) Ensure that robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions.

In addition, the Council will need to ensure that any issues raised by the external auditors in their audit of the 2013-14 accounts are addressed on a timely basis.