

**Coventry City Council**  
**Minutes of the Meeting of the Audit and Procurement Committee held at 3.00 pm**  
**on Monday, 13 November 2017**

Present:

Members: Councillor S Bains (Chair)  
Councillor R Brown  
Councillor L Harvard (Deputy Chair)  
Councillor T Sawdon  
Councillor R Singh  
Councillor H Sweet  
Councillor K Taylor

Employees (by Directorate):

People B Barrett, M Burn, J Gregg, N Hart

Place P Hammond, B Hastie, P Jennings, M Salmon, K Tyler

Other Representatives: S Turner – Grant Thornton

Apologies: There were no apologies

## **Public Business**

### **39. Declarations of Interest**

There were no disclosable pecuniary interests.

### **40. Minutes of Previous Meeting**

The minutes of the meeting held on 11<sup>th</sup> September 2017 were agreed and signed as a true record.

There were no matters arising.

### **41. 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 private reports referred to in Minute 50 below headed ‘Consideration for Approval of Severance Packages in Respect of 3 x Employees Exceeding £100,000’ and in Minute 51 below headed ‘Commissioning Progress Report’ on the grounds that the reports involve the likely disclosure of information defined in Paragraph 3 of Schedule 12A of the Act, as they contain 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 cases, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.**

42. **Outstanding Issues**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) that 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 an issue where a report back had been requested to a future meeting, along with the anticipated date for further consideration of the matter. Appendix 2 provided details of items where additional information had been requested outside of the formal meeting along with the date when this had been completed.

**RESOLVED that the Audit and Procurement Committee notes the outstanding issues report.**

43. **Work Programme 2017/18**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place), which set out the Work Programme of scheduled issues for consideration by the Committee for the year 2017/2018.

**RESOLVED that the Audit and Procurement Committee notes the Work Programme for 2017/18.**

44. **Annual Audit Letter for Coventry City Council 2016-2017**

The Audit and Procurement Committee considered the Annual Audit Letter from the Council's External Auditors, Grant Thornton, which set out the key findings from the work that they had carried out at the Council for the year ending 31st March 2017.

The letter provided a commentary on the results of the External Auditors work to the Council and its external stakeholders. It set out the scope of the audit, the audit of account and value for money consideration and highlighted issues that the Auditors wished to draw to the attention of the public. The Committee noted that, in preparing the letter, the External Auditor had followed the National Audi Office's Code of Audit Practice (the Code) and Auditor Guidance Note 07 - 'Auditor Reporting'.

Appendix A of the Letter set out the reports issues and the fees for carrying out the audit work. Fees were in line with the scale fee set by Public Sector Audit Appointments Limited. Fees for grant certification only covered housing benefit subsidy certification which fell under the remit of Public Sector Audit Appointments Limited, this work was not due to be completed until November 2017 therefore final fees could not be confirmed at this time.

The Committee were informed that the delay in meeting the deadline for the submission of the whole of government accounts pack was due to its late receipt by the Authority and technical errors in the central government supplied pack.

The Committee discussed the CIPFA Code of Practice that required local authorities to revalue its investment properties annually and were assured that officers and the External Auditor would agree an approach for the future revaluation of the Council's properties.

**RESOLVED that the Audit and procurement Committee approves the Annual Audit Letter 2016-2017.**

45. **City Council Treasury Management Investment Activity**

The Audit and Procurement Committee considered a briefing note of the Deputy Chief Executive (Place) that detailed the latest information in respect of the Council's treasury management activity. Appendices to the report detailed the Council's lending list along with the most recent list of investments held by the Council.

The current lending list was maintained in line with advice provided by the Council's Treasury Management advisors, Arlingclose, which based its judgement on information from credit rating agencies.

Since the last report in October 2016, the main change to the lending list was the reduction in the counterparty limits which were based on the expected cash levels for the coming year. As a result of paying three years pension contributions upfront, totalling £93.3m, it was anticipated that the Council's cash balances would be lower than previous years, therefore counterparty limits had been reduced from £10m to £8m.

Also, three unrated Building Societies and a Bank had been removed from the approved lending lists based on advice from Arlingclose, due to worsening credit metrics. The Council had never dealt with any of the institutions involved.

The counterparty limits had also been adjusted based on school current account balances. The Council took these into consideration when setting counterparty limits as in the event of a bank failure, these balances would be bailed-in as well as Council investments. School current account balances held with Lloyds Bank had increased, therefore, the Council's counterparty limits with Lloyds bank had reduced to £3.4m from £4.4m. The Council currently held an investment with Lloyds bank for £4.4m however, this was within the Treasury Management Strategy because, although it was exceeding the counterparty limit now, when the investment was made it was within the counterparty limit.

There are two instances where the Council's current investments exceeded the counterparty limit of £8m. The first of these was the 95 day notice account with Santander and the other was the investment in the CCLA property fund. While it was within the Council's Treasury Management Strategy to hold investments over the current counterparty limit as long as the counterparty limit wasn't breached at the time of investment, the decision had been made to disinvest £2m from the Santander notice account to bring the investment in line with current limits and the Council were currently serving the notice period before receiving the funds.

A decision was made by Council to adjust the Treasury Management Strategy to increase the maximum investment limit with property funds to £10m to take advantage of the relatively strong returns from the fund combined with the relatively high level security within this type of investment. Details were set out in the lending list in Appendix 1 to the report.

The total level of investment balances held by the Council stood at £110.4m as at 20<sup>th</sup> October 2017 compared with £178.9m as at 21<sup>st</sup> October 2016. The main reason for the reduction in investment balances over the past 12 months was due to the £93.3m upfront pension contribution payment made in April 2017.

Since the last report no short term borrowing had been undertaken, due to the high levels of investment balances held by the Council.

The counterparty limit with NatWest was only £3.5m due to them having a lower credit rating (BBB+) than other UK banks and some schools had their current accounts with NatWest. On 12/09/2017 the Council exceeded that limit with an end of day balance of £4.6m, which was due to uncertainty surrounding a potential receipt of £4.5m relating to the Whitley South scheme. All dealing needed to be done by 1pm before investment markets closed and so the decision was taken to proceed as if the receipt would not be received, to negate the risk of the Council having an overdrawn balance. However, at 4pm the Council did receive the £4.5m leading to the end of day balance of £4.6m. Counterparty limits were a notional limit set by the Council designed to reduce exposure to Council investments being bailed-in in the event of a bank failure. As such exceeding counterparty limits carried no penalties other than The Council had an increased exposure to investments being bailed-in if NatWest had defaulted overnight on 12/09/2017.

The Committee were assured that priority was given to the security of investments prior to consideration of returns. Officers indicated that they were satisfied that investments were appropriate and that reports were received periodically providing details of how the Council's investments had been used.

**RESOLVED that the Audit and Procurement Committee notes the latest position in relation to the Council's treasury management activity.**

#### 46. **Internal Audit Plan 2017-2018 - Half Year Progress Report**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) that provided an update on the internal audit activity for the period April to September 2017, against the Internal Audit Plan for 2017-2018.

The report was the first monitoring report for 2017-18, which was presented to enable the 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'.

The report indicated that the key target facing the Internal Audit Service was to complete 90% of its work plan by the 31<sup>st</sup> March 2018 and an analysis of progress against planned work for the period April to September 2017 was set out in detail in the report. At the end of September 2017, the Service had completed 46% of the Audit Plan against a planned target of 49% (which was based on delivering

100% of the plan) and was on track to meet its key target by the end of 2017-18. This also represented an improvement in performance from 2016-17.

In addition to the delivery of the Audit Plan, the Internal Audit Service had a number of other Key Performance Indicators (KPI's) which underpinned its delivery. A table in the report provided a summary of the performance for 2017-18 to date against the five KPIs, with comparative figures for the financial year 2016-17. There was one indicator (i.e. audit delivered within budget days) where the Service's current performance was below expectations. Targeted actions by Management to make improvements remained on-going as part of a continual focus to deliver greater efficiency in the Service. These included weekly progress meetings, improved use of technology to enable budget issues to be highlighted on a timely basis, and targeted work with individual team members to improve performance.

Appendix One of the report provided a list of the audits finalised between April and September 2017, along with the level of assurance provided. The audits that were currently in progress were:

- i) **Audits at Draft Report Stage** – Data Protection: Childrens' Services, Promoting Independent Living Service: Tenants Finances
- ii) **Audits On-going** – Organised Crime Checklist, Raising Invoices Locally, Post 16 Schools Funding, LCS / Controc, Payment Audit Follow Up, New HR / Payroll Processes

Details of a selection of key reviews completed in this period were provided in Appendix Two to the report. In all cases, the relevant Managers had agreed to address the issues raised in line with the timescales stated. The reviews would be followed up in due course and the outcomes reported to the Audit and Procurement Committee.

The Committee were informed that in respect of the Universal Credit system, officers were already taking action in planning for the benefit payment changes.

**RESOLVED that the Audit and Procurement notes:**

- 1) **The performance as at quarter two against the Internal Audit Plan for 2017-2018.**
- 2) **The summary findings of the key audit reviews set out in Appendix Two of the report.**

#### 47. **Accounts Payable Recovery Audit 2016-2017**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) that provided an overview of the results of the Accounts Payable Recovery Audit 2016-2017 and sought approval to participate in future annual audit exercises with the supplier.

The Council made payments of over £300 million a year to suppliers and individuals through the Accounts Payable system within Agresso. Whilst robust controls were in place to ensure that transactions were complete and accurate, there was a residual risk that on occasion payments were made in error, or credit

amounts owing were not identified and recovered. As such, it was common practice across local authorities to undertake proactive audits to identify and recover such items. Previous exercises on this had been carried out and in 2016, the Council engaged a supplier (Caatalyst Ltd) to undertake the latest audit, in-conjunction with support from Accounts Payable / Internal Audit.

The audit covered accounts payable transactions processed on the Agresso system up to 31<sup>st</sup> December 2016. The total spend reviewed was approximately £2 billion which represented around 500,000 lines of transaction data. The scope of the audit covered: Vendor statements – to identify, verify and recover credit notes and similar credit balances on vendor accounts due to the Council; Duplicate payments – to identify, verify and recover any duplicate payments made by the Council; VAT audit – to identify, verify and recover any VAT not recovered by the Council.

In total, the audit identified and recovered a sum of £218k, which consisted of 167 recovery items, including three outstanding recoveries still being processed. A breakdown of the recoveries by type was set out in the report. This represented 0.01% of the total spend reviewed and was below the supplier's benchmark of 0.02% across other clients. The supplier felt that this result was due to strong internal controls being implemented at a management and accounts payable level and was an excellent achievement in the context of overall spend. The Accounts Payable system was subject to an annual internal audit review and was consistent with the suppliers.

The results of the audit were reviewed to identify where control improvements could be made and a number of actions relating to: duplicate payments; vendor statements; credit notes; vendor statements: other credit balances; and VAT, were identified to be taken forward.

It was proposed that the Council undertook further "one off" annual exercises in the future. This would enable the impact on officers' time to be managed more effectively as the timing of the work could be agreed to allow resources to be targeted accordingly. This would also allow appropriate time to be in the actions outlined in the report. Whilst we would expect the level of recoveries to reduce over time as a result of these actions, sufficient time was required for this to be realised.

The Committee were informed that payment was made to the Council engaged debt recovery company on a no win no fee basis. The Committee were also assured that a legal agreement was in place to ensure that all data collected in respect of debt recovery was kept secure.

**RESOLVED that the Audit and Procurement Committee:**

- 1) Notes the outcome of the Accounts Payable Recovery Audit 2016-2017 and the improvement actions identified as a result of this work.**
- 2) Approves the option to undertake future annual proactive audit exercises with the supplier on accounts payable transactions.**

48. **Consideration for Approval of Severance Packages in Respect of 3 x Employee's exceeding £100,000**

The Audit and procurement Committee considered a report of the Deputy Chief Executive (People) that indicated that as part of the Children Services Transformation Programme three Council employees had requested that they be considered for Early Retirement/Voluntary Redundancy (ER/VR). As the severance package for each of the officers concerned would exceed £100,000, the determination of the packages was a matter for the Audit and Procurement Committee.

A corresponding private report detailing confidential aspects of the proposals was also submitted to the meeting for consideration (Minute 50 below refers).

Following Ofsted inspections in 2014 and 2017, Children's Services Workforce Redesign was one of nine projects that together formed the Children's Transformation Programme which supported the Services Improvement Plan. The revised structure would deliver organisational and process changes which would allow Childrens Services to sustain and improve the service experience and outcomes for children and young people by reshaping the way that support was delivered to those aged 0-19 years.

Children's Services Workforce Redesign pre-engagement took place from 13th April until 26th April 2017 and formal consultation with Trade Union colleagues and employees took place from 8th May until 3rd August 2017.

As a result of the redesign some employees opted for ER/VR as part of the Security of Employment Agreement, with three employees having an exit package in excess of £100,000. Part 21 of the Council's constitution required that any severance package for an employee of the Council of £100,000 or over, should be determined by the Audit and Procurement Committee.

When calculating the value of an exit package, a local authority should calculate and include the costs to the authority as well as payments/benefits to the employee. The pension strain costs had therefore been included in the redundancy cost for the total cost of severance. Pension strain was an additional one-off sum that an employer was required to pay to the Pension Fund in order to allow the early release of pension benefits without actuarial reduction. The Committee requested that officers explore options for informing members of the public and the media of this process, to avoid misunderstanding.

**RESOLVED that the Audit and Procurement Committee:-**

- 1) Approves the severance package in respect of employee 1.**
- 2) Approves the severance package in respect of employee 2.**
- 3) Approves the severance package in respect of employee 3.**

**4) Requests that the Cabinet Member for Strategic Finance and Resources considers undertaking a review of the Council's organisational change process and associated Security of Employment Agreement to consider alternate options that may be available to the council to avoid the loss of organisational memory, knowledge, skills and competencies and the cost to the public purse.**

**49. 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.

**50. Consideration for approval of severance packages in respect of 3 x Employee's exceeding £100,000**

Further to Minute 48 above, the Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) that set out confidential aspects of proposals for the severance packages in respect of 3 x employees that exceeded £100,000.

**RESOLVED that, the Audit and Procurement Committee:-**

- 1) Approves the severance package in the sum now indicated in respect of employee 1.**
- 2) Approves the severance package in the sum now indicated in respect of employee 2.**
- 3) Approves the severance package in the sum now indicated in respect of employee 3.**
- 4) Requests that the Cabinet Member for Strategic Finance and Resources considers undertaking a review of the Council's organisational change process and associated Security of Employment Agreement (SOEA) to consider alternate options that may be available to the council to avoid the loss of organisational memory, knowledge, skills and competencies and the cost to the public purse.**

**51. Procurement and Commissioning Progress Report**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (People) that provided an update on the procurement and commissioning undertaken by the Council since the last report submitted to the meeting on 11<sup>th</sup> September 2017 (minute 32/17 referred). Details of the latest positions in relation to individual matters were set out in an Appendix to the report.

**RESOLVED that the Audit and Procurement Committee:**

- 1) Notes the current position in relation to the Commissioning and Procurement Services.**



**2) Agrees that there are no recommendations to be made to either the Cabinet Member for Strategic Finance and Resources, Cabinet or Council on any of the matters reported.**

**52. 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 4.45 pm)