

Coventry City Council
Minutes of the Meeting of the Audit and Procurement Committee held at
3.00 pm on Monday, 27 January 2020

Present:

Members: Councillor R Lakha (Chair)
Councillor M Ali
Councillor J Blundell
Councillor R Brown (Named Labour Group Substitute)
Councillor T Sawdon
Councillor R Singh
Councillor H Sweet

Employees (by Directorate):

People: R Perks

Place: P Jennings, L Knight, R Martin, K Tyler

Others Present: A Sohal, M Stocks (Grant Thornton)

Public Business

47. Councillor S Bains

The Chair referred to the recent death of Councillor S Bains, who had previously been Chair of the Committee and during the last year had been the Deputy Chair. Those present stood for a minute's silence as a mark of respect.

48. Declarations of Interest

There were no disclosable pecuniary interests.

49. Minutes of Previous Meeting

The minutes of the meeting held on 11th November 2019 were agreed and signed as a true record.

50. 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 59 below headed 'Consideration of Approval of Severance Package', on the grounds that the report involves the likely disclosure of information defined in Paragraphs 1, 2 and 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.

51. **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 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.

Members noted that in respect of Appendix 2, information had been circulated following publication of the meeting papers in relation to item 3 headed 'Procurement and Commissioning Progress Report – Webcasting Upgrade'. The Committee agreed that this item could now be logged as completed.

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

52. **Work Programme 2019/20**

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 2019/2020.

It was noted that the Code of Corporate Governance had been deferred for consideration at the next scheduled meeting on 16th March 2020. The Committee requested that, where items are deferred to future meetings that details of the reasons for deferral are provided.

The Committee sought clarification on when the 4 items listed on the work programme as 'Date to be Agreed' would be submitted for consideration. The Chief Internal Auditor indicated that she would investigate the items concerned and provide further information to the Chair.

RESOLVED that the Audit and Procurement Committee:

- 1. Notes the Work Programme for 2019/2020.**
- 2. Requests that where items are to be deferred to a future meeting, details of the reasons for the deferral be reported to the Committee.**
- 3. Requests that investigations be made into the 4 items listed on the work programme as 'Date to be Agreed' and further information provided to the Chair.**

53. **2019-2020 Second Quarter Financial Monitoring Report (to September 2019)**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place), which set out the forecast outturn position for revenue and capital expenditure and the Council's treasury management activity at Quarter 2 of the 2019/20 financial year (to September 2019).

The Committee noted that the report had been considered by the Cabinet at its meeting held on 19th November 2019.

The headline revenue forecast for 2019/20 was a net balanced budget. At the same point in 2018/19 there was a projected overspend of £0.5m. The headline capital position reported £4.8m of expenditure rescheduled into 2020/21.

The largest area of budget pressure and the biggest movement since Quarter 1 was services for housing and homelessness, which were projecting an overspend of £2.8m for the year. There were other overspends in services relating to Looked after Children Placements and Special Education Needs (SEN) Transport with compensating below budget expenditure in corporate areas.

The Council's capital spending was projected to be £218.7m for the year and included major scheme expenditure including investment in the A46 Link Road, Coventry Station Masterplan, Whitley South infrastructure and the National Battery Plant. The position assumed the addition of £0.5m to the Capital Programme in 2019/20 for Waste Containers, which was approved by the Cabinet, due to the need to fund this expenditure from Prudential Borrowing. The borrowing was to be funded from the additional income generated from the containers.

With regard to the Net Asset Management Revenue Account, expenditure was anticipated to be £1.9m less than budget because of lower costs of capital financing, higher investment income and higher loan income. Other corporate budgets reflected lower than budgeted pension costs linked to an early payment arrangement with the West Midlands Pension Fund (£2m), uncommitted resources related to one-off social care funding (£1m), Coventry and Warwickshire Business Rate Pool income in excess of budget (£1.1m), projected additional savings from the Friargate Project (£0.75m) and lower than budgeted levy costs (£0.6m). It was recommended that a contribution be made from this area into reserves for managing the costs of major.

The Committee indicated that they were aware there had been some realigning / reshaping of services across the authority and, in light of the overspend identified, sought clarification on whether there had been any realigning or reshaping of the SEN Transport service. In addition, the Committee requested information on the Capital Programme, in particular the level of expenditure within the Programme that related to the A46 link road and how much has been spent to date on the project. Officers undertook to provide this information to the Committee.

RESOLVED that, the Audit and Procurement Committee:

- 1. Consider and note the proposals in the report and indicate that they have no recommendations to the Cabinet.**

2. **Request further information in relation to whether the SEN Transport Service has undertaken any service realignment and the level of expenditure within the Capital Programme that related to the A46 link road and how much has been spent to date on the project.**

54. **Corporate Risk Register Update**

The Audit and Procurement Committee considered a report of the Director of Finance and Corporate Services, which set out the outcome of the review of the Corporate Risk Register 2020-21.

The report indicated that local government had been operating in a challenging environment of substantial budget cuts and major policy change. There was concern that pressure would continue on the level of available revenue resources to manage spending levels. In addition to reducing resources, there were demographic challenges leading to increased demand for services whilst quality must be maintained. The pace of change and the scale of the challenges required the Council to regularly assess its risk profile and implement suitable controls to manage these.

The Committee's terms of reference require it to monitor the effective development and operation of risk management within the Council. The Council's Risk Management Policy and Strategy identified that the Committee would receive risk management reports to assist it to provide independent assurance of the risk management framework and associated control environment.

The Risk Register appended to the report had been reviewed in consultation with the Senior Management board and the allocated Risk Manager. It identified the main risks facing the Council, the planned risk treatment, the progress made to date, where responsibility lay for the Council's response and the risk control status using a traffic light system.

The Committee noted that the report covered only those risks that were viewed as the most critical for the Council and which were considered at a corporate level. Risk management activity continued at other levels throughout the Council for dealing with those at a lower level.

The corporate risks set out in the appendix to the report fell into two separate categories:

- Operational / Business as Usual – those risks that could affect the underlying and fundamental operations and structure of the Council:
 - CR 001 Finance
 - CR 006 Health and Adult Social Care
 - CR 007 Safeguarding / Protecting Vulnerable Adults, Children and Families
 - CR 013 Combined Authority for the West Midlands
 - CR 014 Information Governance
 - CR 016 Failure to comply with Health and Safety Legislation
 - CR 020 Brexit

- Specific / Project – those risks that could affect specific projects or the major change initiatives to how we operate:
 - CR 002 Sky Blue Sport and Leisure
 - CR 003 ICT Infrastructure and Change
 - CR 005 Workforce Strategy
 - CR 011 Friargate Business District
 - CR 017 City Centre South
 - CR 018 Coventry Station Masterplan
 - CR 019 Homelessness and Temporary Accommodation

The Committee noted that items CR 019 and CR 020 had been added to the Risk Register since the previous report was considered.

In considering the information provided within the Register, the Committee indicated that it would be helpful if the name of the risk manager was included rather than the job title in order to provide clarity over who was responsible for particular risks.

The Committee expressed their concern over a number of the risk ratings within the appendix, including CR 002 (Sky Blue Sports and Leisure), CR 003 (ICT Infrastructure and Change), CR 011 (Friargate Business District), and CR 017 (City Centre South). The Committee debated at length how and why these risks were at the level they were and to assist with the understanding of how risk levels were achieved, it was agreed that a copy of the current risk matrix be circulated to members of the Committee.

The Committee highlighted a significant concern regarding risk CR 020, relating to Brexit, in light of the uncertainty of the impact that Brexit would have on the City. The risk level had been assessed as amber, with a number of Committee members believing that this should have been red. The Committee were advised that there were regular meetings of the Brexit Preparatory Group and whilst updates were being received from Government, there was a limit to what the Council could do until the situation was clearer. It was acknowledged that this particular risk may need to be re-evaluated within the next two to three months. It was agreed that a position statement be circulated to the Committee setting out the current situation in relation to the Council and Brexit preparations. It was also agreed that the Committee's suggestion that the risk be rated as red be considered and a further report submitted to Committee.

RESOLVED that, the Audit and Procurement Committee:

- 1. Note the current Corporate Risk Register, having satisfied themselves that Corporate Risks are being identified and managed.**
- 2. Request that the suggested red rating for Risk CR 020 relating to Brexit be considered and a further report be submitted to the Committee on this matter.**

55. **Half Yearly Fraud and Error Report 2019-20**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place), which provided a summary of the Council's anti-fraud and error activity undertaken by the Internal Audit Service during the financial year 2019/20 to date.

The Committee noted that fraud in the public sector had a national focus through the publication of "Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy". Whilst the national strategy stated that the level of fraud in the public sector was significant, the current trends in fraud activity included areas which the Council did not have responsibility for, such as social housing, and the levels of identified / reported fraud against the Council were at relatively low levels, in terms of both numbers and values.

The Internal Audit Service was responsible for leading on the Council's response to the risk of fraud and error. The work of the team focussed 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; and proactive work.

In relation to Council Tax, work had focussed on reviewing Council Tax Exemptions and Discounts. This work had resulted in 20 exemptions being removed as the customer had failed to report a change in circumstances. Given that on an individual basis, the amounts involved were not sizeable, these had been treated as an error rather than a fraudulent application to obtain an exemption they were not entitled to. Revised bills amounting to £28,000 had been issued of which £20,000 had been repaid to the Council to date. The outstanding balances were being recovered through agreed payment instalment arrangements or the Council's standard recovery arrangements.

In addition, the Council received referrals from both internal and external sources linked to concerns around the payment of Council Tax Support or Council Tax Exemptions / Discounts. In total, 18 referrals had been received. The report indicated that, whilst most of these were passed to the Department of Work and Pensions to investigate under agreed arrangements, 2 concerns had been validated, which had resulted in revised bills / overpayments of around £8,000 being issued, all of which had been recovered.

With regards to the National Fraud Initiative (NFI), the exercise was led by the Cabinet Office and took place every two years, matching 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. Around 2,500 matches had been reviewed and processed. Given the high number of matches, priority had been given to known problem areas and key matches as judged by the Cabinet Office. The Committee noted that, changes introduced by the Cabinet Office in the risk rating approach and release of additional matches under a pilot scheme had required more focus to be given to this area of work in 2019/20. The report provided a breakdown of those areas where errors / overpayments were identified. In summary, this comprised 35 errors / overpayments totalling £156,350. This sum included additional matches released by the Cabinet Office in August 2019 under

the pilot scheme, which used data held by the HMRC to target 3 fraud risks of undeclared property ownership, undeclared earnings and capital, and undeclared persons in a household. The initial results from the pilot both in the Council and across other local authorities suggested that use of this data within the NFI would further strengthen the effectiveness of information available to the Council through this exercise to tackle fraud and error.

It was reported that whilst the NFI exercise took place every two years, Council Tax matches relating to the award of single person discounts was reviewed on an annual basis against the new electoral register which is published each December. This resulted in 15 single person discounts being cancelled in 2019/20 and revised bills / overpayments being issued for around £16,800.

From time to time, the Internal Audit Service received referrals or were asked to assist with investigations relating to employment misconduct and other fraud against the Council involving external individuals. During 2019/20, 8 referrals had been received to date, 3 of which had led to full investigations. It was noted that there were various reasons for referrals not leading to investigations including, for example where an initial assessment / fact finding does not find evidence to support the allegations; appropriate action has already been taken; and the nature of the event means it is impractical to pursue further.

In addition to the 3 investigations for 2019/20, a further 3 investigations were carried forward from 2018/19. Of these 6 investigations, 3 were still on going. Of the remaining 3, one related to Adult Social Care and action was taken to change the care provider being used and around £2,000 being recovered from the provider. 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 the final case, involving 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 increased risk of fraud in the area.

The Council's response to fraud also considered an element of proactive work to ensure that all key fraud risks were considered. In 2019/20 this work had included continuing delivery of face to face awareness sessions with staff from Adult Social Care in relation to direct payment fraud and participation in a regional worktop to assist in development of the new national fraud and corruption strategy for local government.

RESOLVED that the Audit and Procurement Committee note the anti-fraud and error activity undertaken during the first half of the financial year 2019/20.

56. **Annual Governance Statement 2018-19 – Update on Planned Actions**

Further to Minute 5/19, the Audit and Procurement Committee considered a report of the Director of Finance and Corporate Services, which provided an update on the actions planned in 2019/20 to address the governance issues highlighted in the Annual Governance Statement for 2018/19.

The Council was responsible for ensuring that its business was conducted in accordance with law and proper standards and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. To demonstrate such arrangements, the Council had adopted a Code of Corporate Governance (the Code), which was consistent with the principles reflected in the CIPFA / SOLACE framework and guidance 'Delivering Good Governance in Local Government' (2016).

The Annual Governance Statement (Statement) explained how the Council had complied with the Code and, in doing so, reflected the requirements of the Accounts and Audit Regulations 2015. The Audit and Procurement Committee approved the Statement for 2018/19 at its meeting on 24th June 2019. As part of this, the Committee requested an update report during the year on the actions planned to be undertaken by the Council in 2019/20 to address the governance issues highlighted. The 2018/19 Statement set out the following issues (disclosures) which were identified:

- Seeking sustainable improvement in Children's Services
- Ensuring delivery of the Council's vision and corporate objectives in line with the Medium-Term Financial Strategy
- Raising Educational standards
- Implementation of the Information Management Strategy
- Delivery of the Workforce Strategy
- Delivery of the ICT Strategy
- Management of increasing demand in relation to homelessness and the associated costs of housing families in temporary accommodation
- Producing a corporate data access standard
- Governance over relationships with partners and outside bodies
- Governance over the programme of capital projects

The Statement also set out the actions planned to be taken by the Council during the year to address the disclosures made. Whilst some of these actions would be one-of, ring fenced pieces of work which would be relatively straightforward to deliver, other actions formed part of larger, more complex activities, which would be delivered over a period of time. Consequently, the level of progress made during the year to address matters varied.

Appendix 1 to the report submitted provided an update on all of the actions planned in 2019/20, providing assurance that progress was being made across all of the identified areas. It was noted that a further update would be provided when the Annual Governance Statement for 2019/20 was presented to the Committee in June / July 2020.

RESOLVED that, the Audit and Procurement Committee note the progress made against the actions planned in 2019/20 to address the governance issues highlighted in the Annual Governance Statement for 2018/19.

57. External Audit Plan Year Ending 31st March 2020

The Committee considered a report of the External Auditors, Grant Thornton, which provided an overview of the planned scope and timing of the statutory audit of Coventry City Council.

The National Audit Office had issued a document entitled Code of Audit Practice, which summarised where the responsibilities of auditors began and ended and what was expected from the audited body. Respective responsibilities were also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing Grant Thornton as auditor of the Council.

The scope of the audit was set in accordance with the Code and International Standards on Auditing (ISAs)(UK). Grant Thornton would be responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Procurement Committee), and Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in its use of resources.

The audit of the financial statements did not relieve management or the Committee of responsibilities. It was the responsibility of the Council to ensure that proper arrangements were in place for the conduct of its business, and that public money was safeguarded and properly accounted for.

The audit approach would be based on a thorough understanding of the Council's business and would be risk based.

In accordance with ISA (UK) 600, the Audit Plan set out the scope and timing of the audit to be carried out by the External Auditors in relation to Coventry City Council for the year ending 31st March 2020 and included:

- Significant Risks Identified:
 - Presumed risk of fraud in revenue recognition;
 - Management override of controls;
 - Valuation of land and buildings (Council)
 - Valuation of investment properties
 - Valuation of the pension fund net liability.

- Other Risks Identified:
 - International Financial Reporting Standards (IFRS) 16 Leases (issued but not adopted)

- Other Matters
- Materiality
- Value for Money arrangements
- Audit logistics
- Audit Fees
- Independence and non-audit services

In relation to the fees, the Committee noted that the proposed audit fees for 2019/20 were £168,414 for the financial statements audit completed under the Code. The report indicated that the actual fees for 2018/19 were £150,056. In setting the fee, the Auditors had assumed that the authority would prepare a good quality set of accounts supported by comprehensive and well-presented working papers which would be ready at the start of the audit; provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements; and provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

RESOLVED that the Audit and Procurement Committee note the External Audit Plan for year ending 31st March 2019.

58. **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.

59. **Consideration of Approval of Severance Package**

The Audit and Procurement Committee considered a report of the Deputy Chief Executive (Place) which sought approval of a severance package for an employee.

Part 21 of the Council's constitution requires 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, the authority should calculate and include the costs to the authority as well as payments / benefits to the employee.

RESOLVED that the Audit and Procurement Committee approves the severance payment as calculated.

60. **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 5.25 pm)