

Coventry City Council
Minutes of the Meeting of the Audit and Procurement Committee held at 2.30 pm
on Monday, 26 July 2021

Present:

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

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

In attendance: Zak Francis, Grant Thornton (External Auditor)

Employees (by Service):

Finance P Jennings, K Tyler

Law and Governance M Salmon

Apologies: Councillor M Ali
Councillor J Blundell

Public Business

9. Declarations of Interest

There were no disclosable pecuniary interests.

10. 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.

11. 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.

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.

12. **Work Programme 2021/2022**

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.

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

13. **External Audit Plan Year Ending March 2021 (Grant Thornton)**

The Audit and Procurement Committee considered a report of the External Auditors, Grant Thornton, that provided an overview of the planned scope and timing of the statutory audit of Coventry City Council. Zak Francis, Grant Thornton, attended the meeting to present the report.

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 was based on a thorough understanding of the Council's business and was risk based.

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 2021 as follows:

Group audit scope and risk assessment of:

- Coventry City Council
- The Coventry and Solihull Waste Disposal Company Limited
- Tom White Waste Limited
- UK Battery Industrialisation Centre Ltd
- Coombe Abbey Park Limited
- Friargate JV Project Limited
- North Coventry Holdings Limited
- Coventry North Regeneration Limited

Significant Risks – Those risks that required special audit consideration and procedures to address the likelihood of a material financial statement error had been identified as:

- Management override of controls
- Valuation of land and buildings and investment properties
- Valuation of pension fund net liability
- Accounting for the Group and Long-Term investments

Significant findings on these areas, as well as other significant matters arising from the audit would be communicated in the Audit Findings (ISA260) Report.

Materiality –

- Planning materiality of £12.2m had been determined for the Group and £12m for the Council, equating to 1.5% of the prior year gross expenditure. Uncorrected omissions or misstatements other than those which were 'clearly trivial', set at £0.6m, to those charged with governance.

Value for Money Arrangements – the risk assessment regarding arrangements to secure value for money had identified the following risks of significant weakness:

- Group governance: The Council's interest in associated companies had grown over the last few years and there were indications that this would continue to grow. Assessment would be made of the Council's arrangements for managing this diverse group of companies.
- Investment decisions: The Council had an increasingly diverse portfolio of investments including subsidiaries, associates and joint ventures. The arrangements the Council had in place for making these investment decisions would be reviewed.

Audit Logistics –

- The Planning stage took place during January-April 2021 and the final stage would take place in August-November 2021. Key deliverables were the Audit Plan and Audit Findings Report. The Audit approach was set out in the Appendix to the Plan.
- Fees for the audit were £211,414, to be finalised by the PSAA
- The Financial Reporting Council's Ethical Standard (revised 2019) have been complied with and the Audit has been carried out independently in order to give an objective opinion on the financial statements.

The Committee also received a further report of the External Auditor, Informing the Audit and Risk Assessment for Coventry City Council 2020/21, the purpose of which was to contribute to two-way communication between the External Auditors and the Audit and Procurement Committee, as 'those charged with governance'. The report covered important areas of the auditor risk assessment where there was a requirement to make inquiries under auditing standards. It enabled the auditor to obtain information relevant to the audit and supported the Audit and Procurement Committee in fulfilling its responsibilities in relation to the financial reporting process.

As part of the risk assessment procedures there was a requirement to understand management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud
- Laws and Regulations
- Related Parties
- Accounting Estimates

The report included a series of questions and responses received from the Council's management. The Audit and Procurement Committee considered that the responses were consistent with its understanding and had no further comments to make.

Member requested that as part of the governance around the Council's company arrangements, assurance be given to the Committee that those directly involved receive appropriate training. They further requested that specific training be arranged for Members of Audit and Procurement Committee to understand their roles and responsibilities on the Committee.

RESOLVED that the Audit and Procurement Committee:

- 1) Notes the External Audit Plan Year Ending 31st March 2021 and agrees with the management responses to the Plan.**
- 2) Requests that as part of the governance around the Council's company arrangements, assurance be given to the Committee that those directly involved receive appropriate training.**
- 3) Requests that specific training be arranged for Members of Audit and Procurement Committee to understand their roles and responsibilities on the Committee.**

14. 2020/21 Revenue and Capital Outturn

The Audit and Procurement Committee considered a report of the Director of Finance, that had been considered by the Cabinet on 13th July 2021 (their minute 9/21 referred) and would also be considered by Council on 7th September 2021, that outlined the final revenue and capital outturn position for 2020/21 and reviewed treasury management activity and 2020/21 Prudential Indicators reported under the Prudential Code for Capital Finance. Appendices to the report provided: a detailed breakdown of Directorate Revenue Variations; Capital Programme

Changes and Analysis of Rescheduling; and Prudential Indicators. The Cabinet Member for Strategic Finance and Resources attended the meeting for this item of business.

The 2020/21 financial year had been one like no other, with organisational and financial impacts exceeding anything experienced previously during peacetime. Some of these impacts were unseen in consideration of the Council's outturn position – for instance Business Rates reliefs provided and business grants paid out through the year – but their scale had been staggering, nonetheless. The purpose of this report was not to catalogue the changes to society and Council services through the year, although where these had had a financial effect on the Council this would be outlined.

The overall financial position included the following headline items:

- A balanced revenue position after a recommended £9.2m was set aside in reserves to enable the city's recovery from Covid, invested in the Council's key priorities and strengthening the Council's financial sustainability.
- Capital Programme expenditure of £194.2m which represented the second largest programme in the modern era.
- An increase in the level of available Council revenue reserves from £90m to £123m including Covid funding and the net underspend contribution.

Further detail included:

- A net underspend of £8.5m within central budgets after adjusting for the impact of Covid resulting overwhelmingly from one-off circumstances and the application of resources to fund previously approved decisions.
- A revenue underspend of £3.4m within Housing and Homelessness due in large part to the number of households living in temporary accommodation being lower than anticipated.
- Identified income loss and expenditure related to COVID-19 of £31m funded in-part by in-year Government emergency funding and sales fees and charges compensation grants provided for this purpose.
- A shortfall in this in-year Covid funding of £2.2m.

The underlying revenue position had improved by £8.7m since Quarter 3 when an underspend of £0.5m was forecast. In particular the overall underspend (before outturn reserve contributions) and the improved position related to improvements within Contingency and Central budgets which were set out in the report. In overall terms the favourable outturn position shown must be put in the context of the Covid-19 crisis. The position was an indication of the prudent management of the Council's financial position but there were reasons to be cautious about the financial future of local government. These were explored more fully in the financial implications section of the report but could be seen in the uncertain future for local government finance nationally, the externalised and more volatile nature of some of the Council's financial relationships and the continued and potential legacy impacts of Covid. On this basis it was entirely appropriate for the Council to maintain a robust financial position and to retain control of its own financial destiny as far as it was able. This was important not just as an internal Council matter but connected directly to the Council's capacity to improve services for residents and invest in the city and its communities.

As indicated above the financial impact of Covid on the Outturn position had been estimated at £31m. This was not a definitive figure because in many cases the Covid impact was difficult to disentangle from other trends – for instance, how much of the large reduction in car parking income might have happened without the Covid pandemic. What was known was that Government funding provided through 2020/21 had covered a very significant proportion of the cost although this did not take account of the loss in Business Rates and Council Tax income calculated to have been suffered.

Further financial loss due to Covid had continued into the early months of 2021/22 at a much-reduced rate compared with 2020/21 although it remained difficult to provide a reliable estimate of this. The Council had been able to carry forward into 2021/22 £7.55m of Covid resources set aside as part of the 2019/20 outturn position and had been allocated £11m out of the Government's emergency Covid funding for 2021/22. Other specific Covid grants had also been announced whilst a further opportunity was likely to be available to claim compensation for lost income in the first quarter of the year. On this basis there was a strong possibility that the Council would be able to manage the large majority of the financial Covid impact from Government resources over the medium term. Given that the Covid impact would extend into 2022/23 and that a tight funding settlement was anticipated from Government next year it was important that the Council continued to maintain a strong financial position to protect itself in what could be a very challenging financial environment. The recommended proposals put forward by the Director of Finance - the Council's Section 151 officer - were explained in section 5.1 of the report.

The Cabinet:

- 1) Approved the final revenue outturn position including reserve contributions of £9.2m available from the year-end revenue bottom line for the purposes described in Section 5.1 of the report.
- 2) Approved the final capital expenditure and resourcing position in section 2.3 and Appendix 2 of the report, incorporating expenditure of £194.2m against a final budget of £226.9m; £32.5m expenditure rescheduled into 2021/22 and a net overspend £0.2m.
- 3) Approved the outturn Prudential Indicators position in section 2.4.4 and Appendix 3 of the report.
- 4) Recommended that Council gives approval of reserve contribution of £9.2m available from the year-end revenue bottom line for the purposes described in Section 5.1 of the report.

The Committee requested that details of the grant funding received in 2020/21 and carried forward as reserve balances at year-end, be circulated to Members of the Committee.

RESOLVED that the Audit and Procurement Committee notes the content of the report.

15. **Audit and Procurement Committee Annual Report to Council 2020-21**

The Audit and Procurement Committee, a key component of the Council's governance framework, supporting good governance and strong public financial management, considered their Annual Report to Council that provided an overview of its activity during 2020-2021. The report would be submitted to the City Council at their meeting on 7th September 2021.

The report included an introduction by the Chair, Councillor Lakha. During the previous municipal year, the Committee had met on four 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 Draft Annual Governance Statement. Financial Management and Accounting reports were: The Statement of Accounts; The Revenue and Capital Outturn Position for 2019-20; Quarterly Monitoring Reports of performance against revenue and capital budgets 2020-21; and a Treasury Management Activity Update.

A report was submitted by the Council's external auditors, Grant Thornton, in 2020-21: The Draft Audit Findings for the City Council. In relation to Internal Audit, the Committee considered the Internal Audit Annual Report and the Internal Audit Plan for 2020-21 along with a progress report on Internal Audit work.

Fraud reports submitted during 2020-21 were: The Annual Fraud and Error Report; the Half Yearly Fraud and Error Update Report and a report relating to a specific fraud. A Procurement Report had also been received, along with a report discharging the Committee's function to determine salary severance packages of £100k or over.

Other reports considered during this period which were linked to risk management, internal control and governance were: The Complaints to the Local Government and Social Care Ombudsman 2019-20, the Corporate and Covid-19 Risk Registers; The Information Governance Annual Report 2019-20; and The Regulation of Investigatory Powers Act 2000 Annual Compliance Report.

The Committee agreed to recommend that the City Council consider the Annual Report for 2020-2021 at their meeting on 7th September 2021.

RESOLVED that the Audit and Procurement Committee agrees that the City Council be recommended to consider the Audit and Procurement Committee Annual Report 2020-2021 at their meeting on 7th September 2021.

16. **Annual Governance Statement 2020-21**

The Audit and Procurement Committee considered a report of the Director of Finance that sought approval of the Annual Governance Statement, attached as an Appendix to the report, which formed part of the Statement of Accounts for 2020-21.

Coventry City Council was responsible for ensuring that its business was conducted in accordance with the law and proper standards, and that public money was safeguarded and properly accounted for, and used economically, efficiently and effectively. In discharging this responsibility, the City Council was responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

To demonstrate such arrangements, the City Council had adopted a Code of Corporate Governance, 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 ('AGS') explained how Coventry City Council had complied with the Code and in doing so, reflected the requirements of the Accounts and Audit Regulations 2015, which required all relevant bodies to prepare an Annual Governance Statement. The AGS also detailed key governance/control issues that the Council faced in the coming year.

The Statement set out the Council's scope of responsibility, the purpose of the governance framework, the governance framework, and review of effectiveness. It also provided an update on the governance issues that were raised in the 2019-20 Annual Governance Statement.

It was clear that for some issues, the coronavirus pandemic had created challenges in delivering the planned actions in the timescales originally envisaged and re-shaped the focus of activity. However, the Council remained committed to enhancing its governance arrangements and where actions had been delayed, revised timescales had been agreed and were reflected in the action plan for 2021-22.

A review had been undertaken of the sixteen disclosures highlighted in the 2019-20 Statement. Two disclosures had been closed as they were no longer viewed as a significant governance / control issue facing the Council. Fourteen disclosures are to be carried forward into the 2021-22 Statement:

- 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
- Management of increasing demand in relation to homelessness and the associated costs of housing families in temporary accommodation
- Development of a corporate data access standard
- Governance over relationships with partners and outside bodies
- Governance over the programme of capital projects
- City of culture legacy
- Strengthening arrangements linked to the programme of health and safety audits undertaken

- Further development of the Council's IT disaster recovery plans and processes
- Review and update of the Social Value and Sustainability Policy
- Implementation of the Local Government Ethical Standards Best Practice from the Committee on Standards in Public Life
- Implementation of the Redmond Review into the oversight of local audit and the transparency of local authority financial reporting

In addition, six new disclosures were identified for inclusion within the 2021-22 Statement. These were identified as part of the review undertaken to support the production of the Statement. The disclosures related to:

- Further strengthening the Council's arrangements and internal control environment around IT / Cyber Security.
- Improving the system for identifying, evaluating, controlling and monitoring information risks (this has been incorporated into the wider issue of delivery of the Information Management Strategy.)
- Demonstrating compliance with the Financial Management Code.
- Ensuring robust governance over group activities / investments.
- Embedding new methods of consultation and engagement.
- Refresh of the One Coventry Plan.

The Statement presented to the Audit and Procurement Committee as part of this report was the final version of the AGS for 2020-21.

The Committee requested that details of the Governance arrangements for the City of Culture legacy work, be circulated to Members of the Committee.

RESOLVED that the Audit and Procurement Committee:

- 1) Notes the findings of the review of effectiveness of the Council's governance arrangements and confirms its satisfaction with the level of assurance provided, that arrangements are fit for purpose.**
- 2) Approves the Annual Governance Statement, attached at Appendix One to the report, which accompanied the 2019-20 Statement of Accounts.**

- 17. 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 3.45 pm)