

Coventry City Council
Minutes of the Meeting of the Audit and Procurement Committee held at
2.30 pm on Monday, 25 July 2022

Present:

Members: Councillor R Lakha (Chair)
Councillor B Singh (Deputy Chair)
Councillor J Blundell
Councillor G Hayre
Councillor A Hopkins
Councillor T Sawdon
Councillor B Singh

Employees (by Directorate):

Finance B Hastie (Chief Operating Officer), P Jennings, K Tyler

Law and Governance L Knight

Others Present Emily Mayne, External Auditors (Grant Thornton)

Apologies: Councillor M Ali

Public Business

14. Declarations of Interest

There were no disclosable pecuniary interests.

15. 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.

Prior to the meeting, a briefing note had been circulated in respect of Appendix 2, Item 1, relating to the Apprenticeship Levy. The Chair requested that any questions or further information arising from the briefing be emailed to him for follow up.

RESOLVED that the Audit and Procurement Committee notes the Outstanding Issues report.

16. **Work Programme 2022/23**

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 2022/2023.

Members discussed a proposal in relation to wholly owned and joint venture companies the Council holds and the possibility of having information on a different company submitted to each meeting of the Committee. Officers indicated that the formation of a Shareholder Panel had responded to issues previously identified as a risk in light of events at other local authorities. It was recognised that there would be a role for the appropriate Scrutiny Board, as well as the Audit and Procurement Committee and work was being undertaken to ensure scrutiny and monitoring. It was anticipated that upon completion of this work, proposals would be brought forward for consideration. It was therefore agreed that this matter not be included on the work programme at this stage.

RESOLVED that the Audit and Procurement Committee notes the Work Programme for 2022/2023.

17. **Revenue and Capital Outturn 2021/22**

The Audit and Procurement Committee considered a report of the Chief Operating Officer which outlined the final revenue and capital outturn position for 2021/22 and which reviewed treasury management activity and 2021/22 Prudential Indicators reported under the Prudential Code for Capital Finance.

The Committee noted that the report had been considered by Cabinet at its meeting on 12th July 2022 (their Minute 4/22 refers).

The report indicated that the 2021/22 financial year had once again been affected by a range of organisational and financial impacts resulting from the COVID-19 pandemic. These impacts were somewhat reduced compared with the previous year and were subsiding markedly by the year end. By any usual measure however, the impact of Covid still featured significantly in the outturn report.

The Council had managed its response to the pandemic such that it had been able to stay within the resource allocation provided by Government. For the most part this reflected an approach to setting the 2021/22 Budget (in February 2021) when the Council budgeted for continued Covid impacts on its costs and income.

The overall financial position included the following headline items:

- A balanced revenue position.
- Capital Programme expenditure of £189.5m
- An increase in the level of available Council revenue reserves from £123m to £140m including Covid funding and the net underspend contribution.

Further detail included:

- A net underspend of £4.7m within central budgets including additional unbudgeted dividends and a surplus from the Coventry and Warwickshire Business Rates Pool.
- A revenue underspend of £2.5m within Housing and Homelessness due in large part to the number of households living in temporary accommodation being lower than anticipated.
- An overspend of £4.3m within Streetscene and Regulatory Services including net costs of £2.2m resulting from the ongoing refuse drivers dispute.
- An overspend of £2.4m within Children's Services reflecting high numbers of children and high placement costs.
- Covid related costs within services estimated at £8.9m which have been funded from Government Covid resources and netted out from the outturn positions quoted.
- A contribution of £1.2m to strengthen the Council's reserve which protects against volatility within its commercial interests.

The underlying revenue position had improved by £2.5m since Quarter 3 when an overspend of £2.5m was forecast. In particular, the improved position related to improvements within Contingency and Central budgets and Housing and Transformation which were set out in the report. The position was an indication of the prudent management of the Council's financial position through the Covid crisis although Covid had become far less prominent in recent months as a fundamental threat to the Council's financial position. The cost of living crisis and growing levels of inflation had not had any clear impact on this financial outturn, reported up to 31st March 2022 but these give strong cause to be cautious about the financial position of local government in the short-term. It is likely that these factors would present a stern test to the robust financial position that the Council has maintained in terms of its ability to continue to manage within its budgeted position and the extent to which it is able to fund any emergency policy responses.

As indicated above, the financial impact of Covid on the budgeted Outturn position had been estimated at £8.9m. This compared with a figure of £31m in 2020/21. As previously, this was not a definitive figure because in many cases the Covid impact is difficult to disentangle from other trends. Government funding provided through 2021/22 funded all of this cost although this doesn't take account of the loss in Business Rates and Council Tax income and other losses budgeted for by the Council when it set its budget in February 2021.

The Council will carry forward c£2.4m of general Covid grant provided by Government within 2021/22. If no further significant Covid outbreaks occur, the tactical approach will be for any further budgetary variations to be treated as 'business as usual' and managed within the Council's bottom line.

The Committee noted that the following adjustments to figures in the report were reported orally at the meeting of Cabinet and had been updated in the report now submitted:-

- The revenue budget figure in paragraph 1.1 should be £243.8m (not £238.8m)
 - The figures in Table 3 are amended as follows:
 - The Private Finance Initiatives balance is £9.626m (not £9.904m)
 - The Usable Capital Receipts balance is £31.187m (not £37.158m)
 - The relevant sub-total and totals are amended to reflect these changes.

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

18. **External Auditor's Annual Report 2020/21**

The Audit and Procurement Committee considered a report of the External Auditor (Grant Thornton) which provided an Annual Report for 2020/21. It was noted that the report remained interim until such point as the 2020/21 audit of the statement of accounts was complete.

Under the National Audit Office Code of Practice (the Code), the External Auditors are required to consider whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The Auditor is no longer required to give a binary qualified / unqualified Value for Money conclusion. Instead, Auditors report in more detail on the Authority's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Authority's arrangements under specified criteria. As part of its work, the Auditor considered whether there were any risks of significant weakness in the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Risks were identified in respect of financial stability; governance; improving economy, efficiency and effectiveness; and Covid-19.

In respect of financial stability, the Auditor found that the City Council continued to perform well with regard to financial stability, with a record of stable financial and budgetary management. Despite the challenging environment in which it operated during 2020/21, the Council maintained a good financial position and achieved a balanced budget. It had also put forward plans to achieve balanced budgets for 2021/22 and 2022/23.

As at 31st March 2021, the Council held £224m of usable reserves, including £7.6m in covid-related reserves that could be used to help mitigate future budget pressures. This placed the Council in a strong financial position and the Council was well placed to manage any future shortfalls in funding.

The work had not identified any significant weakness in arrangements to secure financial stability at the Council. The Auditor had made one improvement recommendation relating to cashflow management. It was noted that the Council did not prepare an actual cash flow forecast but relied on an existing, long standing staff member with extensive knowledge of the Council's business to estimate the Council's cash flow forecasting without documenting the actual cash flow forecast. It therefore recommended that the Council should prepare a rolling

annual cash flow forecast as part of its treasury management process. Officers indicated that whilst there had been a difference in opinion on what was being reported in relation to forecasting, the recommendation of the Auditor had been accepted. The Committee were assured that forecasting took place on a regular basis, involving three members of staff. The recommendations proposed ensured that documenting the work being undertaken was improved.

The Auditor's work on governance had focussed on developing a detailed understanding of the governance arrangements in place at the Council and the changes instigated as a response to the pandemic. The Council had appropriate leadership and management structures in place and its control systems were appropriate. The Council was also open in dealing with complaints, ethical, and legal matters. No significant weaknesses had been identified in the Council's governance arrangements, although a number of improvement recommendations were identified in relation to internal audit. In particular, the Auditor had noted that the Public Sector Internal Audit Standards (PSIAS), who monitor internal audit services for public sector bodies, had not undertaken an inspection of the Council in over six years and recommended that they be invited to undertake a review of the Council's internal audit service at the earliest opportunity. The Auditor further identified that during the year under review, the quarter 3 internal audit report showed that the Council was behind in implementing a number of internal audit recommendations, including in areas such as Sports and Arts Cultural Grants Process and Resourcelink Self Service Delegated Authority. There was concern that non-implementation of recommendations could create further risks for the Council. The Auditor recommended that internal audit recommendations should be implemented promptly by management and that this should be rigorously enforced by the Audit and Procurement Committee, including reporting on medium as well as high risk items. In addition, the Auditor acknowledged that internal audit coverage across the Council's services was good and extended to some of the Council's wholly owned subsidiaries such as North Coventry Holdings Ltd and Coventry North Regeneration Ltd. However, the service did not include Coombe Abbey Park Ltd, the UK Battery Industrialisation Centre Ltd and Tom White Waste Ltd. The Auditor recommended an improvement regarding the use of internal audit across all of the Council's subsidiaries and a need for transparency in arrangements. Officers indicated that the recommendations proposed had been accepted and that further work was being undertaken in relation to internal audit recommendations that had not been implemented, particularly to push forward those recommendations that had been delayed due to the pandemic. Discussions were also taking place regarding the involvement of the service across the whole of the City Council's subsidiary businesses and, once completed, proposals would be presented to the Committee.

In considering the section of the report relating to governance, Councillor Sawdon proposed an amendment to the recommendation to Committee, which was seconded by Councillor Blundell, to remove the sentence "Our view is that the Ethics Committee of the Council is effective and continues to be a positive component of Council's overall governance architecture. We are satisfied that the Council responds positively to the complaints it receives and that the complaints do not highlight systemic weaknesses in the Council's services." on the basis that the Committee did not agree with that statement. A vote was taken and the amendment was lost.

With regard to improving economy, efficiency and effectiveness, the Auditor had found that the Council demonstrated a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources. It had a clear strategic plan and performance system for monitoring progress. It was recognised as an ambitious Council and had invested in the development of the area. It continued to face challenges with regard to such areas as educational attainment and workforce.

It was recognised that the Council holds a portfolio of wholly owned and joint venture companies. In response to external events at other councils, the Council was implementing changes to its ownership and governance structure over these organisations. The Auditor considered the revised structure to be appropriate. The Auditor noted that financial performance was not uniform and although some subsidiary entities perform strongly, others have been more impacted by the Covid-19 pandemic, resulting in losses. This needed to be an area of focus for the Council under the revised governance arrangements. The Auditor reviewed several areas in relation to improving economy, efficiency and effectiveness, which included performance review and benchmarking; performance monitoring and assessment; procurement; commercial ventures, outsourcing and shared service arrangements; group governance; and partnership working. Overall, the Auditor's work had not identified any significant weakness, although some improvement recommendations were made. The recommendations included:

- The Council should develop corporate level Key Performance Indicators (KPIs) to monitor consultation with the procurement team, and application of procurement policies.
- The Council's Annual Performance report would be enhanced by including more KPIs on cost in the section 'delivering our priorities with fewer resources'.
- The Council should review the unit costs of providing housing services across the various cost categories.

RESOLVED that, the Audit and Procurement Committee receive the report of the External Auditor (Grant Thornton).

Note: Councillors Blundell and Sawdon whilst receiving the report, requested that their objection to the statement in respect of the Ethics Committee be recorded.

19. **External Auditor's Value for Money Report on Coventry Council - Company Governance 2020-21**

The Audit and Procurement Committee received a report of the External Auditor (Grant Thornton) setting out their Value for Money audit on Coventry Council Company Governance.

Under Section 20(1)(c) of the Local Audit and Accountability Act 2014, the External Auditor are required to satisfy themselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. The Code of Audit Practice issued by the National Audit Office required the External Auditor to report their commentary relating to proper arrangements to the Council.

The Council holds a portfolio of wholly owned and joint venture companies. The portfolio of commercial entities includes companies delivering services to the Council as well as strategic holdings in hospitality and economic regeneration. These include two wholly owned entities: Coombe Abbey Hotel Limited (CAPL) and Tom White Waste Limited (TWW); two joint ventures: The Coventry and Solihull Waste Disposal Company Limited (CWSDC) and Sherbourne Recycling Limited (SRL); and a strategic interest in a special purpose vehicle, the UK Battery Industrialisation Centre Ltd (UK BIC). A third joint venture, Friargate JV Project Limited (FJV) was included but not addressed in detail within the report submitted.

The Council is currently implementing a unified legal and governance approach to these organisations. Prior to this, the Council operated a decentralised legal and governance structure, with each entity having its own governance procedures. It was noted that there was officer involvement in the board of all wholly owned subsidiaries and jointly owned entities, with elected members sitting on shareholder panels of all entities included within the report submitted with the exception of UKBIC and Friargate.

In response to external events at other councils, the Council is now implementing changes into its ownership and governance structure over these organisations. These changes were outlined in the Coventry City Council report entitled "Restructuring Coventry City Council Subsidiaries" which was submitted to Cabinet and approved on 7th September 2021. The Council's wholly owned companies are grouped together under a single parent company Coventry Municipal Holdings Limited (CMH / HoldCo), which was incorporated on 26th October 2021.

The revised governance structure established a new centralised sub-committee of Cabinet designed to oversee the Council's wholly owned and joint venture subsidiaries; the Coventry City Council Shareholder Committee, which sits alongside the Council's Scrutiny Boards and Audit and Procurement Committee. The CAPL and TWW will be renamed Member Advisory Panels. The Shareholder Panel for Coventry North Regeneration (CNR) will be dissolved. The External Auditor considered that the revised structure is appropriate and would enable the Council to have an appropriate oversight of its companies and investments.

The report set out the External Auditors consideration and opinion on a number of areas, including:

- Overview of Coventry Council Group
- Scope and work undertaken
- Summary conclusions on Council governance of subsidiary companies
- Summary conclusions on company governance by subsidiary companies
- Current legal structure of Coventry Council Group
- Current governance of Coventry Council Group
- Proposed legal and governance structure of Coventry Council Group
- Accounting for Group Companies
- Operational Governance – Coombe Abbey Hotel Limited and Subsidiaries
- Operational Governance – CSWDC

- Operational Governance – Tom White Waste Limited and Subsidiaries
- Operational Governance – Sherbourne Recycling Limited
- Operational Governance – UK BIC
- Operational Governance – Friargate JV Project Limited

The External Auditor had identified a number of opportunities for further improvements within the areas of oversight; business planning; skills; accounting; and companies – performance and governance, all of which were set out in the report submitted.

RESOLVED that, the Audit and Procurement Committee receive the report of the External Auditor.

20. **Audit and Procurement Committee Annual Report to Council 2021-22**

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 2021-2022. The report would be submitted to the City Council at their meeting on 6th September 2022.

The report included an introduction by the Chair, Councillor Lakha. Despite the challenges which have continued to be presented by Covid-19 over the last year, the Committee has continued to discharge its key responsibility effectively, namely providing independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the Council's financial reporting and governance processes. The Committee has provided oversight of key matters such as the Annual Governance Statement, Internal Audit activity and challenges in meeting the regulatory deadlines for the publication of the Council's accounts. Alongside this, the Committee has considered additional information which provides assurance over the governance arrangements for procurement activity.

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 audit and publication of the Statement of Accounts for 2019/20; The Revenue and Capital Outturn Position for 2019-20; Quarterly Monitoring Reports of performance against revenue and capital budgets 2021-22; and a Treasury Management Activity Update.

Reports were submitted by the Council's external auditors, Grant Thornton, in 2021-22, including the 2020/21 Audit Plan; Informing the Audit Risk Assessment; Addendum to the Audit Findings for the 2019/20 accounts.

In relation to Internal Audit, the Committee considered the Internal Audit Annual Report and the Internal Audit Plan for 2021-22 along with progress reports on Internal Audit work.

Fraud reports submitted during 2021-22 were: The Annual Fraud and Error Report; and the Half Yearly Fraud and Error Update Report. Procurement Reports 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, including the Whistleblowing Annual Report 2020/21; Complaints to the Local Government and Social Care Ombudsman 2020/21; the Corporate and Covid-19 Risk Registers; the Information Governance Annual Report 2020/21; 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 2021-2022 at their meeting on 6th 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 2021-2022 at their meeting on 6th September 2022.

21. Internal Audit Charter

The Audit and Procurement Committee considered a report of the Chief Operating Officer (Section 151 Officer), which shared the updated Internal Audit Charter with the Audit and Procurement Committee to allow it to express its views on the framework of principles that underpin the work of the Internal Audit Service.

The Public Sector Internal Audit Standards (PSIAS) apply to all internal audit service providers within the public sector. The Standards require that the purpose, authority, responsibility and position of internal audit activity must be formally defined in an internal audit charter, which should be periodically reviewed and approved by the Audit and Procurement Committee. The previous Internal Audit Charter had been approved by the Committee in 2013, since which time there had been various changes to operational responsibilities or the Internal Audit Service and its position within the Council. In summary these changes are:

- Changes to job titles / reporting lines.
- Operational responsibility for Risk Management and the Benefit Fraud Service no longer lies with the Internal Audit Service. Whilst there were different reasons for the transfer of these responsibilities, it is viewed that this puts the Internal Audit Service in a better position to ensure that it remains independent and objective and avoids the need for safeguards to be put in place.
- The Public Sector Internal Audit Standards were updated in 2017. Whilst there were no significant changes to the Standards, it is appropriate that the Internal Audit Charter reflects the current Standards.
- The Institute of Internal Auditors' International Professional Practices Framework published a model internal audit charter in 2017. Whilst it is not a mandatory requirement to adopt the model charter, it is viewed as good practice to follow professional guidance.

As a result of these changes, the Internal Audit Charter had been reviewed and updated, as set out in the Appendix to the report.

RESOLVED that, the Audit and Procurement Committee approve the Internal Audit Charter set out at Appendix 1, that defines the purpose, authority, responsibility and position of the Internal Audit Service in the Council.

22. **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 3.55 pm)