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Coventry City Council

Minutes of the Meeting of the Audit and Procurement Committee held at 2.30 pm on Monday, 25 November 2024

Present:

Members: Councillor R Lakha (Chair)
Councillor M Ali
Councillor J Blundell
Councillor A Hopkins
Councillor J Innes
Councillor P Male
Councillor B Singh

Employees (by Directorate):

Finance and Resources B Hastie (Director of Finance and Resources), P Helm,
T Pinks, K Tyler

Law and Governance O Aremu, L Knight

Apologies: Councillor Jobbar

Public Business

33. Declarations of Interest

Councillor Lakha declared an interest in the matter referred to in Minute 38 below, headed "Internal Audit Plan 2024-25 – Half Year Progress Report, in so far as it relates to Willenhall Primary School, where he is a Governor.

34. Minutes of Previous Meeting

The minutes of the meeting held on 30th September 2024 were agreed and signed as a true record.

There were no matters arising.

35. 2023/24 External Audit Plan and Related Audit Reports

The Audit and Procurement Committee considered a report of the Director of Finance and Resources (Section 151 Officer) in relation to the 2023/24 External Audit Plan and Related Audit Reports.

The Audit Plan provides details of the planned scope and timing of the audit of the Council's accounts. As the focus of the audit is risk based, the external auditor, Grant Thornton, have been liaising with the Council's management to update their understanding of the nature of the risks that could impact on the audit plan. The findings from this work were detailed in the 'informing the risk assessment' report, set out at Appendix 2. The auditors would design an audit programme that is tailored to address the risks and circumstances at Coventry City Council. The key risks identified in the Audit Plan were:

- Management override of controls
- Valuation of land and buildings, and investment properties
- Valuation of the pension net asset/liability
- Accounting for the Group and the valuation of long-term investments
- Liabilities for equal pay claims

In support of the audit of accounts, Grant Thornton have reviewed the controls in place for the Council's key financial systems. The outcome from this work was detailed in the '2023/24 IT audit findings' report, set out at Appendix 3. Although there were some areas for improvement identified, there were no significant deficiencies in IT controls relevant to the audit of financial statements.

The Committee noted that in September 2024, the Government passed legislation designed to address the backlog in the completion of local authority accounts. The legislation specified deadlines for the completion of audit work for particular financial years. In the event of uncompleted audits by the specific deadlines, auditors would be required to issue either qualified opinions or disclaimers, as appropriate.

Primarily due to delays in the publishing of the audited 2019/20 accounts, the audit of the council's 2020/21 accounts had not been completed and the audit of the 2021/22 and 2022/23 accounts had not begun. As the deadline for publishing of the audited accounts in relation to these years has been set as 13th December 2024, there would not be sufficient time to carry out the audit of these years, and the external auditor would be issuing disclaimed opinions for these years.

As a result, the audit of the 2023/24 accounts would also need to be adapted to reflect the fact that the Council's 2022/23 have not been audited, so reliance could not be placed on brought forward balances. The deadline for publishing of the audited 2023/24 accounts had been set as 28th February 2025.

RESOLVED that, the Audit and Procurement Committee:

1. **Note the details presented in the 2023/24 Audit Plan.**
2. **Note the findings detailed in the 'Informing the audit risk assessment – 2023/24' report.**
3. **To note the findings detailed in the '2023/24 IT audit findings' report.**

36. External Audit Documentation Relating to the Council's 2020/21, 2021/22 and 2022/23 Statutory Accounts

The Audit and Procurement Committee considered a report of the Director of Finance and Resources (Section 151 Officer), setting out a series of documents from the external auditor, Grant Thornton, relating to the Councils 2020/21, 2021/22 and 2022/23 statutory accounts.

In September 2024, the Government passed legislation designed to address the backlog in the completion of local authority accounts. This legislation specified

deadlines for the completion of audit work for particular financial years. In the event of uncompleted audits by the specific deadlines, auditors would be required to issue either qualified opinions or disclaimers, as appropriate. The relevant deadline for the accounts of financial years up to and including 2022/23 is 13th December 2024.

Grant Thornton have not been able to complete the audit of the Council's 2020/21 accounts and have not started the audit of the 2021/22 and 2022/23 accounts. This is primarily due to the significant delays in the completion of the audit of the 2019/20 accounts, which the Committee has been briefed on previously.

The documents from Grant Thornton, attached as appendices to the report, detailed the situation in relation to the three uncompleted years and dealt with the necessary matters required in advance of the deadline. In particular, they had issued an Audit Findings Report (AFR) in relation to the work they had previously carried out on the 2020/21 accounts. In addition, Grant Thornton had provided an Audit Report for 2021/22 and 2022/23 clarifying that it was not possible to audit the accounts for these years and detailing the other non-audit work that they did carry out.

Although some audit work was carried out on the 2020/21 accounts this was not sufficient for the auditor to issue a qualified opinion. As a result, Grant Thornton have issued disclaimers with regards to all three years' accounts (2020/21, 2021/22 and 2022/23). To complete the administrative process, the auditor provided draft management letters of representation, one for each respective year of accounts, for the Council to review and authorise. Upon authorisation, these accounts would be published on the Council's website as soon as was practically possible and in advance of the 13th December 2024 deadline.

The Committee sought clarification on a number of matters for each financial year's accounts, particularly in respect of the historic valuations and the impact these have had on the accounts, additional works required and the level of fees due to the external auditors. The Committee were assured that the issues with historical valuations was due to a movement from an internal valuer to an external valuer, but that it was a common area to find these sorts of issues. The changes in fees was due to the additional work that had been required in respect of the 2020/21 accounts. However, fees were reduced for later financial years due to the external auditor being unable to complete substantive works on these accounts.

The Committee noted that there were around 900 sets of unaudited accounts being dealt with across the country and that Coventry were not unique in being in the situation where accounts were not audited. It was stressed that the main implication going forward was that the external auditor could not give assurance in respect of opening balances and reserves. The external auditor was clear in stating that this did not mean that there were errors in balances and reserves, just that they were not able to confirm there were not.

The Director of Finance and Resources further assured the Committee that whilst the external auditor was not able to give confirmation over the accuracy of opening balances and reserves, that the accounts had been processed as though they would be audited and that he was confident with the accuracy of these matters.

However, should any amendments be identified these would be reported to the Committee prior to publication of the accounts.

RESOLVED that the Audit and Procurement Committee:

- 1. Note the details presented in the 2020/21 Audit Findings Report and the Audit Report for 2021/22 and 2022/23.**
- 2. Accept the disclaimed opinions provided by the external auditor in relation to the 2020/21, 2021/22 and 2022/23 accounts.**
- 3. Grant authorisation for the requested letters of representation, in relation to these financial years, to be signed and returned to the external auditors.**

37. Annual Compliance Report 2023 - Regulatory & Investigatory Powers Act (RIPA) 2000

The Audit and Procurement Committee considered a report of the Director of Law and Governance, which outlined the Council's use of the Regulation of Powers Act 2000 (RIPA), which governed the acquisition and disclosure of communications data and the use of covert surveillance by local authorities.

The report indicated that the Council used powers under RIPA to support its core functions for the purpose of prevention and detection of crime where an offence may be punishable by a custodial sentence of 6 months or more or were related to the underage sale of alcohol and tobacco. There were three processes available to local authorities under RIPA: the acquisition of communications data; directed surveillance; and covert human intelligence sources ("CHIS").

The Act set out the procedures that the Council must follow if it wished to use directed surveillance techniques or acquire communications data in order to support core function activities (e.g., typically those undertaken by Trading Standards and Environmental Health). The information obtained as a result of such operations can later be relied upon in court proceedings providing RIPA was complied with.

The Home Office Code for Covert Surveillance and Property Interference recommended that elected members, whilst not involved in making decisions or specific authorisations for the local authority to use its powers under Part II of the Act, should review the Council's use of the legislation and provide approval to its policies. The Council adopted this approach for the oversight of the authority's use of Parts I and II of the Act.

2019 saw the implementation of Part 3 of the Investigatory Powers Act 2016 (IPA). The IPA consolidated all existing powers available to law enforcement and other agencies. The legislation also ensured that the powers conveyed were fit for the fast-moving digital age and introduced the Office for Communications Data Authorisation (OCDA) which is now responsible for independently authorising all applications for communications data. This has removed the requirement for local authorities to seek judicial approval for communications data.

The Committee noted that, for the period 1st January 2023 to 31st December 2023, no applications were made for either the Use of Directed Surveillance or Covert Human Intelligence sources or the Use of Acquisitions and Disclosure of Communications Data.

The Committee queried whether the provisions under RIPA were used for the purposes of surveillance of flytipping hotspots. They were advised that, currently, overt surveillance was used in respect to flytipping but that further investigations would be made as to whether it is appropriate to use RIPA as a further source of evidence gathering and that flytipping carries the relevant custodial sentence for RIPA to be used. It was agreed that a note would be circulated to the Committee detailing the outcome of these investigations.

RESOLVED that, having considered the report, the Audit and Procurement Committee notes the report and determines that there are no recommendations to be forwarded to the Cabinet Member for Policing and Equalities.

38. **Internal Audit Plan 2024-25 - Half Year Progress Report**

The Audit and Procurement Committee considered a report of the Director of Finance and Resources, which provided an update on the internal audit activity for the period April to September 2024, against the Internal Audit Plan for 2024-25. The report was the first monitoring report for 2024-25 and was presented in order for the Audit and Procurement 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 key target facing the Internal Audit Service was to complete 90% of its work plan by the 31st March 2025. As at the end of September 2024, the Service had completed 33% of the Audit Plan against a benchmark of 50% (which reflected delivery of 100% of the Plan). It was recognised that performance was below expectation, although the quarterly targets did not take account of the varying length of audits and as such performance would vary across the year. It was also apparent that performance had been impacted by vacancies within the Internal Audit structure. Whilst the Audit Plan for 2024-25 took account of this in terms of available audit days, draft reports were taking longer to turn round due to competing management demands. However, notwithstanding this, based on an assessment of performance as at early November 2024, it was predicted that the Service are on track to meet its target by the end of March 2025.

It was noted that whilst the Annual Audit Plan was agreed at the start of the financial year, this may be subject to change as a result of emerging risks, requests from service areas to reschedule work, and any exceptions. It was important that the Internal Audit Service retained a flexible approach in order to ensure it could respond to issues on a timely basis and add value. Any significant changes would be reported to the Committee.

Appendix 1 of the report provided a list of the audits finalised between April and September 2024, along with the level of assurance provided. As at 30th September 2024, the following audits were in progress:

- Payment Kiosks
- Housing Benefit Subsidy
- Group Governance Review
- New Working Arrangements in Waste Services,
- CareDirector post upgrade assurance
- Equality Impact Assessments
- Emergency Planning / Business
- Implementation of new IT systems
- Henley Green Primary School
- Howes Primary School
- Sowe Valley Primary School
- Willenhall Primary school
- Disabled Facility Grant Service Review
- Health Visitors Contract
- Energy Billing
- S17 Payments

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

RESOLVED that, the Audit and Procurement Committee:

1. **Note the performance at quarter two against the Internal Audit Plan for 2024-25.**
2. **Considered and note the summary findings of the key audit reviews attached as Appendix two to the report submitted.**

39. **Treasury Management Update 2024-25 - Half Year Progress Report**

The Audit and Procurement Committee considered a report of the Director of Finance and Resources which provided an update on the Council's Treasury Management activity in 2024/25 to the end of September 2024.

The Council adopted the Chartered institute of Public Finance and Accountancy's "Treasury Management in the Public Services: Code of Practice (the CIPFA code). This requires the Council to approve an annual Treasury Management Strategy and a mid-year update report. Treasury Management performance was reported as part of regular budget monitoring reports to the Committee.

The Council's Treasury Management activity is undertaken in line with the Treasury Management and Commercial Investment Strategy and Policy for 2022/23, which was agreed by Cabinet as part of the Budget Report 2022/23 at its meeting of 22nd February 2022. There were no breaches of the strategy and policy to report.

The Council is supported in the Investment Strategy and Policy by its Treasury Management Advisors - Arlingclose. The advisors provide economic analysis and specialist advice. A key element of this is the provision of advice on credit risk and

the supply of information on credit ratings. Regular review meetings with the advisors continue to be held.

Appendix 1 is a detailed list of short-term borrowing and investments that the Council holds as at 30th September 2024. There had been no short-term borrowing so far in 2024/25. There are one or two variables in the forecast for the rest of the year, but it was anticipated that the Council may need to borrow some short-term cash at the year-end. It was important to emphasise that this was a snapshot of the Council's cashflow and did not represent the Council's overall financial situation. In many cases the council received grant funding ahead of the expenditure being incurred.

The Committee noted that, other than an £18m loan from West Midlands Combined Authority (WMCA) on behalf of UKBIC, no new long-term borrowing had been undertaken since 2009, due in part to the level of investment balances available to the Council. The Council has no immediate plans to take any new long-term borrowing, until interest rates bottom out, forecast to be in the final quarter of 2025, however this would be kept under review. As at 30th September 2024, the Council's long-term liabilities totalled £310.3m. This total was mainly made up of long-term borrowing sourced from the Public Works Loan Board (PWLB); Liabilities arising from the Private Finance Initiative (PFI) and Lender Option Borrower Option (LOBO's) borrowing.

The PWLB remained the main source of loan finance for funding local authority capital investment. In Augst 2021, HM Treasury significantly revised guidance for the PWLB lending facility with more details and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Under the Treasury Management Strategy 2022/23 approved by Cabinet, it was agreed the Council will not purchase investment assets primarily for yield.

The final three tables at Appendix 1 provided a detailed list of investments held as at 30th September 2024 and identified a total investment of £87.0m. This compares to £91.1m at this time the previous year. These balances were a snapshot and did not reflect the Council's overall financial situation. For the twelve-month period to 30th September 2024, the Council's investments earned an average rate of interest of 5.11%. This could be split down between Collective Investment Funds at 5.30% and other investments at 5.02%. This was against a backdrop of the Bank of England base rate being maintained at 5.25% until 18th September 2024, when it reduced to 5%.

Appendix 2 showed the Council's Lending List as at 30th September 2024. This list showed those banking and government institutions that the Investment Strategy allowed the Council to invest cash balances with. The list was taken using specialist advice from Arlingclose and was split between UK and foreign institutions. The Council did not hold any funds with counterparties that were not on this list. Duration limits for counterparties on the Council's lending list are under regular review and would continue to reflect economic conditions and the credit outlook.

Financial markets were in a state of flux following the Budget announced by the Chancellor of the Exchequer on 30th October 2024 and pending the U.S. Presidency Election on 5th November 2024. Initial thoughts on the Budget announcement were that inflation would increase and thus restrict the Bank of England Monetary Policy Committee's (MPC) ability to reduce interest rates as much as was hoped. Events in the Middle East and Ukraine also add to the uncertainty.

Throughout the majority of 2024, the Bank of England Monetary Policy Committee (MPC) maintained interest rates at 5.25% although there were reductions of 0.25% in August 2024 and a further reduction of 0.25% in November 2024 following favourable inflation data taking the rate to 4.75%. Latest inflation data shows a year-on-year increase of 1.7%. The latest forecast from the Council's Treasury Management Advisors, Arlingclose, was for the Bank Interest Rate to fall but not as quickly as was first envisaged. Initial thoughts were that it would be in the region of 3% to 3.5% by December 2025 but this has now been updated in response to both the Chancellor's budget and the US election to 3.75%.

RESOLVED that, the Audit and Procurement Committee note the update against the Treasury Management Strategy 2024/25 at 40th September 2024.

40. **Outstanding Issues**

The Audit and Procurement Committee considered a report of the Director of Law and Governance that identified issues on which a further report/information had been requested or was outstanding so that the Committee were aware of them and could manage their progress.

Appendix 1 to the report provided details of an issue where a report had been requested to a meeting along with the anticipated date for consideration of the matter.

Appendix 2 of the report provided details of an item where information had been requested outside the formal meeting.

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

41. **Work Programme 2024/2025**

The Audit and Procurement Committee considered a report of the Director of Law and Governance that detailed the Work Programme of scheduled issues to be considered by the Committee during the Municipal Year 2024/2025.

RESOLVED that the Audit and Procurement Committee notes the Work Programme for 2024/2025

42. **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 4.15 pm)

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