



Coventry City Council

Public report

Report to

Audit and Procurement Committee

28th June 2021

Name of Cabinet Member:

Cabinet Member for Strategic Finance and Resources – Councillor R Brown

Director approving submission of the report:

Director of Finance

Ward(s) affected:

City Wide

Title:

2019/20 Accounts Update

Is this a key decision?

No

Executive summary:

The purpose of this report is to provide the Audit and Procurement Committee with an update on the delayed 2019-20 accounts closedown including responses to recommendations from the External Auditors and matters that have arisen since the last update to Committee. It should be noted that Grant Thornton will provide their own official update on any outstanding issues at the conclusion of the audit.

Recommendations:

Audit and Procurement Committee is recommended to:

1. Note the progress made since the last report on these matters, the current status of the 2019/20 accounting process and the issues outstanding to be resolved.

List of Appendices included:

Appendix 1 - Summary of Issues Resolved and In-Progress

Background papers:

None

Other useful documents

None

Has it or will it be considered by scrutiny?

No other scrutiny consideration other than the Audit and Procurement Committee

Has it, or will it be considered by any other council committee, advisory panel or other body?

No

Will this report go to Council?

No

Report title:

2019/20 Accounts Update

1. Context (or background)

- 1.1 The local government accounts reporting deadlines for 2019/20 were extended due to the Covid pandemic and following the passing of the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. The revised arrangements set out were for councils to publish their draft accounts by 31st August 2020 and to have their final Statement of Accounts audited and published by 30th November 2020.
- 1.2 In the event, the Council published its draft accounts on 26th June which was over 2 months ahead of the statutory deadline. This provided a five-month window in which to have the accounts audited and brought to Audit and Procurement Committee for final approval. Grant Thornton's draft Audit Findings Report (AFR) was brought to Committee on 30th November. It highlighted a higher than normal number of issues and adjustments for the Council's accounts, the large majority of which had been accepted by the Council. The Committee resolved to receive an update report on the key issues highlighted in the report to a future meeting. An update on these matters is the primary focus of today's report.
- 1.3 The Committee was also informed that it was not possible for the Council's accounts to be signed off at that time, the reasons for which were outlined at the meeting. The external auditors reported that a small number of issues remained outstanding which had prevented the final audit opinion from being issued. The AFR stated that the auditor's work was "substantially complete" and there were no matters which they were aware of that would require modification of their audit opinion or material changes to the financial statements. The outstanding matters outlined were receipt of assurance confirmations from component auditors of Tom White Waste Limited and Coombe Abbey Park Limited, receipt of the management representation letter and a review of the final set of financial statements.
- 1.4 Subsequent external audit activity undertaken to enable the Council's accounting statement to be finalised identified further issues that have been the subject of significant work since November. This has caused further delay to completion of the 2019/20 accounts and has had an impact on work required for the 2020/21 accounts. As a result, today's report also provides an update on this position for the Audit and Procurement Committee.

2. Options considered and recommended proposal

The following section provides an update on the Council's response to the AFR brought to the 30th November meeting and outlines the auditor queries that have been the subject of additional work since November.

Issues Highlighted in the Audit Findings Report

- 2.1 The Council's response to the key issues highlighted in the AFR considered in November 2020 are included in Appendix 1.
- 2.2 The responses fall into the following categories:

Matters where Grant Thornton and the Council had agreed accounting adjustments (Items 4, 5 and 6) – all these will be incorporated into the final accounting statement.

Areas where further information was outstanding (Items 1 and 2) – all outstanding information has been provided.

Subjects where the Council is satisfied that its existing accounting approach is robust and defensible (Items 3, 10 and 11) – the Council will continue with its existing practice.

Areas where Grant Thornton have recommended valuations to be completed (Items 4, 5, 7, 9) – external valuation experts have been appointed.

Remaining areas where Grant Thornton have recommended further valuation work to be completed (Items 5, 8).

In addition to these, the Audit Findings Report included a number of lower level adjustments and amendments, all of which were accepted at the time.

- 2.3 The two areas where the Council needs to determine its approach going forward are in respect of investment property valuations (Appendix 1 item 5) and the valuation of assets held by Tom White Waste Limited in the Council's Group Accounts (Appendix 1 item 8).

The auditors have recommended that 100% of investment properties are re-valued every year. The Council has previously resisted this move, arguing that the re-valuation of a large number of smaller value assets does not offer good value for money. Given that the Council has now engaged an external company to value its property assets, there is an opportunity to explore the appropriate balance between the value of assets and the regularity of valuation.

The auditors have also recommended that a 'fair value' valuation is obtained for the assets held by Tom White Waste Limited. The company's balance sheet holds this value on a different basis, that of depreciated historical cost. The Council is currently assessing the balance of the cost of undertaking a valuation with the risk, by not doing so, of their being an accounting misstatement. This will be informed by the overall carrying value of the assets held on Tom White's balance sheet and the cost of undertaking a fair value valuation.

Neither of these items were critical to the finalisation of the 2019/20 audit. Grant Thornton were giving their views on their preferred outcome without making these critical to signing off the accounts.

Issues Raised In Addition to Those Highlighted in the Draft AFR

- 2.4 Issues have been pursued by the auditors which did not form part of the AFR in November and which officers were not aware at that time would continue as part of the audit process. The majority of these have come about as a result of a 'Hot Review' undertaken by technical accounting experts at Grant Thornton. This is an in-depth review which is not undertaken for every local authority every financial year. The review tends to take a much closer look at technical accounting matters that can go beyond those considered as part of the standard audit process. The main issues raised as part of the review are listed below.

Extensive challenge on the nature of the Council's relationship and accounting treatment of UKBIC (UK Battery Industrialisation Centre), the arrangements and accounting transactions during its construction phase, its treatment in the Council's Single Entity Accounts and Group Accounts and the value of UKBIC as an investment on the Council's balance sheet. The nature of the relationship between UKBIC and the Council is distinctly non-standard from the Council's perspective and includes several questions of a quasi-legal nature. It is fair to say that this has been the most difficult collection of issues of those raised by the auditors.

The treatment of de-recognition in the valuation of the Council's infrastructure assets. Derecognition refers to the amount of an existing assets value that needs to be removed from the accounts when an existing asset is replaced by a new asset (particularly for instance when highways works are undertaken).

The treatment of property asset value reduction for UKBIC upon completion as either impairment or downward re-valuation. This distinction is important because it is reported in different areas of the accounts and the Council has been asked to justify and disclose adequately its re-valuation treatment.

The overall impact of changes in property valuations has also led to consideration of whether the Council needs to undertake a Prior Period Adjustment (PPA) to the accounts. A PPA is sometimes required where errors or changes to previous accounting treatments are identified which are judged to be so significant that their impact needs to be restated in relation to previous years' accounts and the opening balances of the year in question. The combined impact of property valuation queries is such that the need for a PPA is now thought to be required.

- 2.5 Further consideration and discussion have arisen as a result of the lateness of the accounts in relation to circumstances that existed or facts that emerged subsequently relating to the financial period in question. In addition, issues have emerged in closing-down the following year's accounts (for 2020/21) relating to accounting treatments used previously and whether balances have been brought forward correctly. Even where these have not resulted in actual changes to the 2019/20 accounts consideration of such matters has taken up a significant amount of additional officer attention.

3. Results of consultation undertaken

- 3.1 None.

4. Timetable for implementing this decision

- 4.1 The regulatory deadline for completing the Council's 2019/20 accounts was 30th November 2020. The Council was not able to meet this timescale. In such circumstances, councils can comply with legal requirements by posting on their website the fact of and reason for the delay. The Council has complied with this requirement.

The intention now is to achieve a final audited statement as soon as possible although this is subject to the agreement between the Council and Grant Thornton on the remaining accounting issues (in particular on UKBIC) and links that have emerged with the 2020/21 accounting statement.

5. Comments from the Director of Finance and the Director of Law and Governance

5.1 Financial Implications

Timely approval of the Council's audited Statement of Accounts is one of the core targets of the Council's Financial Management Team each year and it is a source of some frustration that this has not been achieved. The reasons for the delay were set out in the report taken to Committee in November and these have been compounded by the additional work in response to audit queries that have been dealt with since that time. The delay has caused significant extra workload for finance officers as well as the Council's external auditors over a timeframe when both parties have been busy undertaking other duties. This aspect has caused significant additional delays since November.

There are no specific financial implications associated with this report and it is important to note that delays to the final publication of the accounts do not detract from the fact that the Council continues to maintain robust financial health. It approved a balanced 2021/22 Budget without the need for new savings and is expected to report a better than balanced 2020/21 financial outturn position with strong reserve balances in a few weeks' time despite the challenges of the Covid pandemic. The Council was able to comply with the original deadline for publishing draft accounts in June 2020 and the expectation remains that the auditors will issue an unqualified value for money conclusion on the Council.

The Council was not exceptional in not being able to meet the November 2020 accounting deadline. The National Audit Office has reported subsequently that 55% of local public bodies accounts had not been signed off on time. It is clear from the reasons discussed at the time and in national debate since that there are a range of environmental factors that have contributed to the overall delay in addition to the several Coventry-specific reasons that have been in evidence.

Steps have been taken to employ external valuers to provide expert valuations for some balance sheet items which will remove or ease some of the areas of challenge from the external auditors in future. The area of most challenge (UKBIC) has caused some initial accounting issues to address but these should become less difficult once initial accounting approaches have been agreed.

It is important to raise though that the Council continues to pursue some innovative approaches to its activity, for instance by providing financial support to external partners and by establishing or incorporating additional external company relationships to its group position. By their nature these approaches provide new accounting challenges and a greater volume of work, adding to the burden of completing the accounts. One outcome from this is that the Council will need to consider increasing the level of Financial Management team resource needed to meet these additional accounting requirements in future.

5.2 Legal implications

The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 required that the audited accounts and opinion is published by 30 November 2020. Having not achieved that, the situation is allowed for by Regulation 10, paragraph (2a) of the Accounts and Audit Regulations 2015, as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. The Council has complied with this subsequent requirement.

6. Other implications

6.1 How will this contribute to achievement of the council's Plan?

Production of timely and accurate accounts is one important measure of the Council's overall financial health. This in turn is fundamental to ensuring that the Council delivers good value for money and can deliver the services provided for Coventry citizens.

6.2 How is risk being managed?

The need to deliver a stable and balanced financial position in the short and medium term is a key corporate risk for the local authority and is reflected in the corporate risk register. Production of timely and accurate accounts are one aspect of managing this risk.

6.3 What is the impact on the organisation?

Production of timely and accurate accounts are one aspect of achieving good governance on behalf of the Council.

6.4 Equalities / EIA

None

6.5 Implications for (or impact on) climate change and the environment

None

6.6 Implications for partner organisations?

None

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