



Coventry City Council

# Public report

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**Report to**

Audit and Procurement Committee

27<sup>th</sup> June 2022

**Name of Cabinet Member:**

Cabinet Member for Strategic Finance and Resources – Councillor R Brown

**Director approving submission of the report:**

Chief Operating Officer (Section 151 Officer)

**Ward(s) affected:**

City Wide

**Title:**

2019/20 and 2020/21 Accounts Update

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**Is this a key decision?**

No

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**Executive summary:**

The purpose of this report is to provide the Audit and Procurement Committee with an update on the delayed 2019/20 and 2020/21 including 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 2020/21 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 and 2020/21 accounting process and the issues outstanding to be resolved for 2019/20.

**List of Appendices included:**

None

**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 and 2020/21 Accounts Update

**1. Context (or background)**

- 1.1 In June 2021 the Audit and Procurement Committee was informed of the delay to the Councils 2019/20 accounts and the reasons for the delay. The statutory deadline was for the accounts to be audited and published by 30<sup>th</sup> November 2020. As at June 2022 the final 2019/20 Statement of Accounts has not yet been signed off by the Council's external auditors Grant Thornton.
- 1.2 Grant Thornton have presented two draft Audit Findings Report (AFRs) to Committee, one in November 2020 and a further report in November 2021. These reports highlighted a higher-than-normal number of issues with the Council's accounts. Where the auditors have required these to be adjusted for within the accounts, these have been accepted and implemented by the Council. However, because of the accounts remaining unfinalised, further audit work has identified additional issues which need to be resolved before the accounts can be approved.

**2. Options considered and recommended proposal**

The following section provides an update on the outstanding issues delaying the 2019/20 and 2020/21 accounts and the latest expectations for their progress. There are no specific options or recommendations for Committee to consider.

2.1 The additional issues to be resolved are:

- Finalisation of accounting statements for the Council's Group Accounts (incorporating the accounts of the Council's key Group companies).
- Accounting for highways infrastructure assets.

2.2 The group accounting statements are those that combine the Council's own accounts with those of its company interests to present analysis across the whole Council 'group'. Grant Thornton have challenged why funding of the grouped elements has previously only reflected unusable reserves. Upon analysis, the Council recognises that this approach is not consistent with the accounting guidance published by CIPFA and that it would be reasonable to expect company interests in the group accounts to be represented by both useable and useable reserves. The Council is now re-analysing this position and is in dialogue with the auditors over a revised presentation.

2.3 Accounting for highways infrastructure has been a topic of debate for several years within local government and recent challenges in other councils has caused further sector-wide discussion. The issue relates to highways infrastructure assets (essentially roads and pavements) and specifically whether local authorities should be assessing if there is any residual value remaining in replaced components that needs to be de-recognised when the new expenditure is made. While this is standard practice for many fixed assets, it may not generally be being implemented for infrastructure assets because there are significant practical difficulties in applying the standard approach to such assets. Auditors across the sector have paused completion of council accounts across the country with Grant Thornton awaiting further guidance through CIPFA (the Chartered Institute of Public Finance and Accountancy) before they can sign off the Council's 2019/20 accounts. A CIPFA consultation on changes to the Accounting Code of Practice in relation to infrastructure assets is due to finish in June 2022 which should then enable a way forward to be agreed with the auditors.

2.4 Given the history of the last two years, it is not possible to confirm the date by which these issues will be finalised. Nor is it possible to guarantee that the auditors will not raise further issues with the accounts given that a number of issues have been raised as fresh challenges over the course of the audit. Nevertheless, both sides are strongly committed, to bring the 2019/20 process to a swift conclusion to the extent that this is within their control.

2.5 As a result of the work required to complete the 2019/20 accounting statements plus the impact on the opening balance sheet position for the subsequent year, the Council's 2020/21 accounts have also suffered delay. The statutory deadline to get these accounts signed off was September 30<sup>th</sup>, 2021, although only 9% of councils were reported to have achieved this deadline. These accounts continue to remain incomplete for many councils at the current time.

2.6 Given the progress made on the 2019/20 accounts and in discussion with the auditors, the Council is now seeking to produce a draft of its single entity accounts for 2020/21, aiming for the end of June 2022. This version will assume no impact from the Infrastructure Assets issue and would exclude the immediate need to complete the Group Accounts pending the outstanding Group Accounts issue with the 2019/20 accounts. This should enable the Council to reduce the extent of the delay to its accounting statements across multiple years. It should also provide some assurance that its processes and procedures remain broadly sound and that the failure to achieve approved audited accounts does not imply any wider weakness in the integrity of the Council's financial decision making.

2.7 As reported previously, it is important to be clear that the 2019/20 delays are concerned solely with technical accounting matters, largely around the valuation of assets on the balance sheet and consolidation of financial results into summary accounting statements. If more serious concerns had arisen, the auditors would have brought these to the Council's attention. In addition, the Council has already addressed one of the concerns of Grant Thornton that there was insufficient capacity and expertise to manage the Council's accounting requirements both by appointing expert external support for the key valuation processes and internal capacity specifically targeted at some of the more complex areas of accounting. Together these are already helping the Council to tackle the backlog of issues and put in place robust foundations for compiling future accounts.

### **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 30<sup>th</sup> November 2020. Subject to agreement of the Council's current proposals and to no further substantive challenge in new areas from Grant Thornton the intention remains to complete these accounts together with Audit sign-off over Summer 2022.

4.2 The regulatory deadline for completing the Council's 2020/21 accounts was 30<sup>th</sup> September 2021. The Council is planning to complete draft single entity accounts by the end of June 2022 to be made available to the auditors for review during July and August. If this process goes well this could open the possibility of completing the 2020/21 accounts including the group accounts element and Audit and Procurement Committee sign-off before the end of 2022.

4.3 The regulatory deadline for completing the Council's 2021/22 accounts is 30<sup>th</sup> November 2022. Given the work still needed to complete and have audited the previous 2 years of accounts, the Council will not be able to meet this timescale. The earliest that it may be possible to complete this will be during the first half of 2023.

## **5. Comments from the Chief Operating Officer (Section 151 Officer) 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 continues to be a source of frustration that this has not been achieved. This frustration extends to the fact that Council's auditors have challenged different elements of the accounts as the audit has progressed over the course of 2 years. The items outstanding now are different to the ones reported to Committee in November 2020 and November 2021. In reality however, the Council has little option but to accept that the auditors are raising legitimate issues with the Council's accounts and that the Council needs to accept and adjust for these.

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 2022/23 Budget without the need for new savings and will report a better than balanced 2021/22 financial outturn position with strong reserve balances in a few weeks' time. None of the reasons for account sign-off being delayed point to the type of financial difficulty faced by some councils across the country.

Although the Council's 2019/20 accounts have been significantly delayed these are now overwhelmingly complete. The Council is not exceptional in not being able to meet the September 2021 accounting deadline for its 2020/21 accounts and many local public bodies accounts for this period remain outstanding.

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 and the Finance function has strengthened the team that it uses to compile the accounts.

### **5.2 Legal implications**

The Council has missed its statutory accounting deadlines for the 2019/20 and 2020/21 accounts. Having not achieved these, 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 these requirements.

## **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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