

# Auditor's Annual Report 2021/22

## Coventry City Council

November 2023



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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Executive summary






## Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2021/22 is the second year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our conclusions are based on the arrangements in place for the 2021/22 financial year. These findings are summarised in the table below.

Criteria	Risk assessment	2020/21 Auditor Judgment	2021/22 Auditor Judgment	Direction of travel
Financial sustainability	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but improvement recommendation made	 No significant weaknesses in arrangements identified, but two improvement recommendation made	↔
Governance	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but improvement recommendation made	 One significant weaknesses in arrangements identified regarding delays in audited accounts. One Key Recommendation and four improvement recommendations made	↓
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	 No significant weaknesses in arrangements identified, but improvement recommendation made	 No significant weaknesses in arrangements identified, but two improvement recommendation made	↔

-  No significant weaknesses in arrangements identified or improvement recommendation made.
-  No significant weaknesses in arrangements identified, but improvement recommendations made.
-  Significant weaknesses in arrangements identified and statutory recommendations made.

# Executive summary



## Financial sustainability

Coventry City Council (the Council) continues to perform well with regard to financial sustainability, with a record of stable financial and budgetary management. Despite the challenging environment in which it continued to operate in during 2021-22, the Council has maintained a good financial position and achieved a balanced budget. It has put forward plans to achieve balanced budgets for 2022-23 and 2023-24.

As at 31 March 2022, it held £226m of usable reserves. This places the Council in a strong financial position. The Council remains well placed to manage any future shortfalls in funding.

Our work has not identified any significant weaknesses in arrangements to secure financial stability at the Council. We have made two improvement recommendations relating to cashflow management and publishing different financial scenarios within its budgeting reports. Further details can be seen on pages 7-10 of this report.



## Governance

Our work this year has focussed on further developing a detailed understanding of the governance arrangements in place at the Council and in particular its partially/wholly owned subsidiary companies. The Council has appropriate leadership and management structures in place and its risk and control systems are appropriate. It is open in dealing with complaints and ethical and legal matters. The financial statements audit for 2019/20 was only completed on 10 October 2023 and the 2020/21 and 2021/22 continue to be delayed. We consider this to be a significant weakness and have raised a key recommendation with regard to this matter (See Page 7 for details). With the exception of its arrangements for the preparation of its financial statement, we consider that the Council has appropriate governance arrangements in place. We did identify four improvement recommendations relating to the external assessment of Internal Audit; an independent assessment of the governance of subsidiary companies; improvements to the monitoring and assessment of strategic risks and updates to the Council's website with regard to information regarding its various strategies. Further details are provided on pages 11-19 of this report.



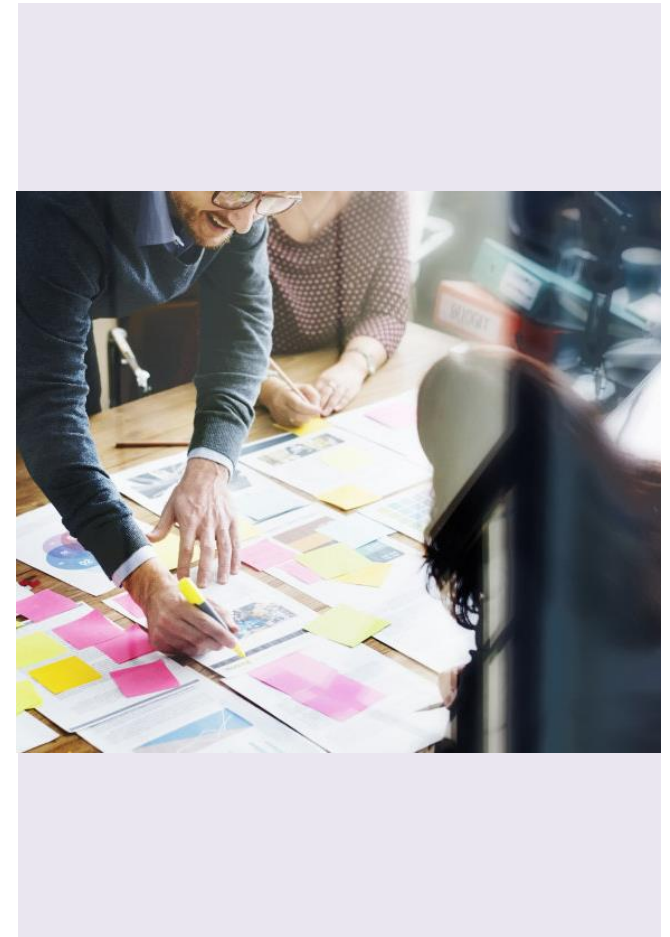
## Improving economy, efficiency and effectiveness

The Council continues to demonstrate a good understanding of its role in securing economy, efficiency and effectiveness in its use of resources. It has a clear strategic plan and performance system for monitoring progress. It is an ambitious council and has invested in the development of the local area. It continues to face challenges with regard to areas such as educational attainment and recruitment to key posts such as social workers and education psychologists.

The Council holds a portfolio of wholly owned and joint venture companies. The Council has restructured the ownership and governance over these organisations. We consider that the revised structure is appropriate. Financial monitoring of the performance of those subsidiary companies has been a key focus of the new governance committee.

Our work has not identified any significant weaknesses. We have made two improvement recommendations relating to cost reductions in Children's services and future alignment of the Procurement and Digital Transformation Strategies.

Further details on our wider work in this area can be seen on pages 20-25 of this report.



# Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

## Opinion on the financial statements

Auditors are required to express an opinion on the financial statements that states whether they : (i) present a true and fair view of the Council's financial position, and (ii) have been prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021-22

The 2019-20 accounts were signed on 10 October 2023. The Council was not able to complete the restatement of the 2019-20 accounts in a timely manner leading to continued delays in the audit process for 2020-21 and 2021-22.

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014 ('the Act'), auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly

We have not made a statutory recommendation.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

We did not issue a public interest report

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

We did not apply to the court

# Opinion on the financial statements and use of auditor's powers

We bring the following matters to your attention:

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

We did not issue an advisory notice

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

We did not apply for judicial review

# Key recommendation

## Governance



### Recommendation 1

The Council should address the weaknesses in the preparation of its financial statements as identified in our Financial Statements Audit work that have caused delays to the publication of accounts.

### Why/impact

The delays in preparation of the financial statements could expose the Council to financial risk as well as failure to meet statutory reporting deadlines.

### Auditor judgement

Whilst the 2019/20 audit is now complete, the financial statements audit for 2020/21, 2021/22 and 2022/23 continue to be delayed. We consider this to be a significant weakness.

### Summary findings

The 2019-20 audit has only recently been completed. A significant number of misstatements were identified by the audit team, which highlights concerns about the quality of the draft accounts but has also significantly lengthened the audit. The cause of the delays in the audit are primarily due to significant weaknesses in the Council's property valuation processes as well as significant deficiencies in the Council's group accounting.

### Management Comments

The Council is addressing the weaknesses identified as set out in Grant Thornton's recently published 2019/20 Audit Findings Report

# Securing economy, efficiency and effectiveness in the Council's use of resources

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:



## Financial Sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).



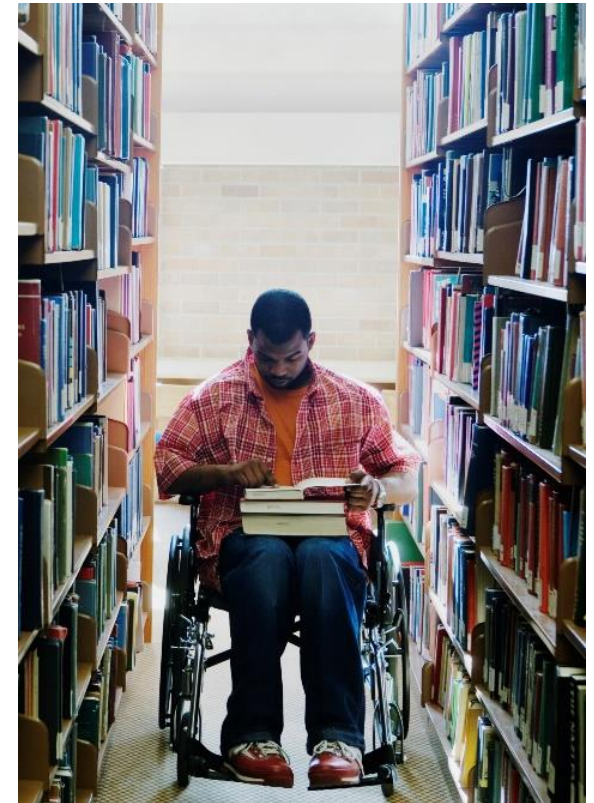
## Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.



## Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Our commentary on the Council's arrangements in each of these three areas, is set out on pages 9 to 29.



# Financial sustainability



## We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

## 2021-22 Outturn

The Council has historically performed well financially, with a record of stable financial and budgetary management in the years leading up to 2020-21. Despite the challenging environment in which it operated during 2021-22 with the impacts of Covid-19 and inflationary pressures, the overall financial position (as reported in the outturn position to Cabinet in July 2022) was a balanced revenue position after utilising £8.9m of government Covid-19 grants. After the use of these grants, there was an underspend of £1.2m allowing the Council to increase revenue reserves by this amount to mitigate future financial pressures. Key areas of pressure were Children's Social Care (£2.4m overspend due to higher volume of children in care and higher placement costs), Waste (including £2.2m overspend from a refuse drivers' dispute), as well as inflation.

Budgets for 2022-23 and 2023-24 were agreed at the Cabinet meetings on 22 February 2022 and 21 February 2023 respectively. The 2022-23 budget was balanced without any planned use of reserves, no planned reductions to services and no specific savings plans. When setting the 2022-23 budget in February 2022, the Council envisaged a year-end deficit of £16.9m for 2023-24. The Council has now been able to agree a balanced budget for 2023-24 without planned use of reserves and without any service reductions or specific savings plans. This is as a result of a more favourable Local Government Financial Settlement than originally forecast.

As at 31 March 2022, the Council had £140m of revenue reserves, £18.6m in Covid Business Rates Relief, £37m in capital receipts, and £31m in school reserves. Total reserves amounted to £226m, a £2m increase in reserves from 2020-21.

This included an extra-ordinary balance of £18.6m at the end of 2021-22 in relation to Government Covid Business Rates reliefs announced in 2020-21. This balance, includes an addition to Adult Social Care Reserves of £15m. The Council continues to have a healthy level of reserves.

## Capital Programme

The Council completed capital programme expenditure of £189.5m against a plan of £223.9m in 2021-22, £33.9m of this underspend has been rescheduled into 2022-23. There were no significant overspends within the agreed Capital Programme. The deferral of some items of spend have been fully explained within the programme.

Major capital expenditure in 2021-22 related to improvements to highways (£30m) air quality compliance (£20.7m) city centre redevelopment including completion of the second office building within the Friargate district of the city (£47.8m); and investment in secondary schools (£30.4m).

The Council has also put forward additional proposals for £80m funding under the government's City Region Sustainable Transport Settlement (CRSTS) programme. This includes £54m for the very light rail programme and £17m for the Coventry South Sustainable Transport Programme.

The Council's Capital Financing Requirement in 2021-22 was £513m an increase of £10m from 2020-21. The increase is mainly accounted for by a requirement for new borrowing of £28m offset by a Minimum Revenue Provision (MRP) of £13m. Borrowing is within CIPFA prudential limits indicating that the Council's borrowing is affordable, sustainable and prudent.

# Financial sustainability cont'd

## Medium term financial planning

The Council clearly sets out corporate strategic priorities, which are referenced within the Council's financial planning processes. The 'One Coventry Plan' sets the Council's vision, its ambitions for the city council and its priorities for addressing the challenges and opportunities it faces. The Council's stated priorities are to be: Globally connected; Locally committed and Delivering its priorities with fewer resources. These priorities are clearly reflected against the respective spend areas in the Council's Medium-Term Financial Strategy (MTFS). The MTFS is aligned with the Council's workforce strategy which aims to ensure the Council has the necessary talent to deliver its vision and the Council's Capital Program with the aim of making Coventry an attractive place to live and work. .

There is no evidence that the Council is depending on reduction in services currently being provided to secure financial sustainability. Unlike many similar councils, Coventry does not currently have a significant savings programme and has been able to mitigate the level of savings required from transformation to balance its budget. Identified savings were £0.9m from various commercialisation projects and £0.3m from the restructure of the Council's senior management team. The Council is also not reliant on non-recurrent savings or on reserves. Overall reserves grew slightly (from £224m at 31 Mar 2021 to £226m at 31 March 2022). Some of these reserves are utilised in 2022-23 and 2023-24., however, this is mainly residual costs related to Covid-19 and it is anticipated that the Council will continue to have a good level of reserves going forward.

We noted in our 2020-21 Auditor's Annual Report that the Council does not currently prepare a cash flow forecast but relies 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 it. The Council still does not have a written cashflow statement. In mitigation the Council does set out a detailed income and expenditure forecast, it also has a low level of borrowing however we do not deem this to be sufficient to effectively manage cashflow including avoiding unnecessary cashflow costs. A recorded cashflow statement that is reviewed throughout the year will help to mitigate this risk. Without this in place there is a risk that this could become a significant weakness over time as the Council's financial position changes. We have therefore made a further improvement recommendation in this respect.

The MTFS is updated as part of the budget process, the latest MTFS was approved by the Council in December 2022 for the period 2023-24 to 2025/26. As part of this review, sensitivity analysis and scenario modelling was undertaken on all aspects of the MTFS, including income assumptions and expenditure assumptions. The Council initially put forward a series of proposals which forecast a deficit of £30m and £42m for 2024/25 and 2025/26.

The MTFS was updated in February 2023 with the forecast deficits reduced to £20m and £31m respectively. This represents the Council's indicative starting position arrived at as a result of the Government's one-year spending round and is updated each year as soon as the Council receives confirmation for other known and new non-recurring government grants. This is the Council's worst-case scenario. Due to significant transformation in recent years, the Council is now in a relatively stable position (impact of Covid-19 aside) and optimises income through several routes such as fees and charges to close this forecast deficit to balance the budget. It has a good track record in achieving this and anticipates being able to continue to achieve this outcome.

The Council adopts an extremely prudent approach to its MTFS and provides updates through annual budget reports submitted to Cabinet. Assumptions for council tax and business rates in the MTFS are reasonable and are included in the budget after consultation with key stakeholders including residents and local businesses. The Council also undertakes sensitivity analysis for budgetary assumptions by building in various scenarios for pay awards, contract variations and energy inflation into the budgeting process.

The Council could benefit from also sharing other scenarios (i.e. best case or medium case) as part of the budget process. There is implicit reference to this analysis in the Section 151 Officers risk statement however a clearer statement might benefit members when making budget decisions. We have made an improvement recommendation in this respect.

## Conclusion

Overall, we are satisfied the Council has appropriate arrangements in place to ensure it manages risks to its financial sustainability. We have not identified any risks of significant weaknesses. We have identified two opportunities for improvement. These are set out on pages 11 and 12.

# Improvement recommendations



## Financial sustainability

### Recommendation 2

The Council should produce a documented cashflow forecast which is reviewed and updated on a regular basis throughout the year.

### Why/impact

A recorded cashflow forecast that is reviewed throughout the year will help to avoid unnecessary cashflow costs. Without this in place, there is a risk that this could become a significant weakness over time as the Council's cash position changes.

### Auditor judgement

The Council still does not have a documented cashflow forecast.

### Summary findings

The Council still does not have a cashflow forecast. In mitigation, the Council does set out a detailed income and expenditure forecast, it also has a low level of borrowing however we do not deem this to be sufficient to effectively manage cashflow including avoiding unnecessary cashflow costs. A recorded cashflow statement that is reviewed throughout the year will help to mitigate this risk.

### Management Comments

Management's view is that we have a proven track record of good cashflow management and that the Council's approach is fit for purpose. However, we are happy to look at any practical improvements that could be made and will seek out good practice at other councils.



The range of recommendations that external auditors can make is explained in Appendix B

# Improvement recommendations



## Financial sustainability

### Recommendation 3

The Council could benefit from reporting other scenarios (i.e. best case or medium case) as part of the budget process.

### Why/impact

A clearer statement might benefit members when making budget decisions.

### Auditor judgement

The Council adopts an extremely prudent approach to its MTFS. The MTFS is effectively the Council's worst-case scenario.

### Summary findings

Assumptions for council tax and business rates in the MTFS are reasonable and are included in the budget after consultation with key stakeholders including residents and local businesses. The Council also undertakes sensitivity analysis for budgetary assumptions by building in various scenarios for pay awards, contract variations and energy inflation into the budgeting process. There is implicit reference to this analysis in the Section 151 Officers risk statement however a clearer statement might benefit members when making budget decisions.

### Management Comments

Management recognises the value of considering different Budget scenarios and will continue to do this as appropriate within its budget planning cycle up to the point of putting forward Budget proposals.



The range of recommendations that external auditors can make is explained in Appendix B

# Governance



## We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour (such as gifts and hospitality or declaration/conflicts of interests) and where it procures and commissions services.

## Leadership and committee effectiveness/decision making

Appropriate leadership is in place. The City Council operates a Leader and Cabinet form of executive governance arrangements. The Council has five Scrutiny Boards and an over-arching Scrutiny Co-ordination Committee. The Scrutiny Co-ordination Committee has responsibility for Council Resources (Finance, HR, ICT, Legal); and the Transformation Programme. The Audit and Procurement Committee is responsible for council's arrangements for approving the Annual Accounts and compliance with statutory guidance.

There is evidence that the scrutiny committees provided useful challenge and insight and where appropriate took specialist advice including external experts and local representatives.

The Annual Governance Statement (AGS) sets out any key governance issues identified by the Council. The production of the AGS for 2021-22 was delayed because of a delay in the Council finalising its accounts for 2019-20, it was published in January 2023. The AGS for 2020-21 had identified 19 areas of improvement that the Council planned to work on. None of these were deemed to be a significant weakness in the Governance arrangements at that time. In 2021-22 the Council has taken action to fully address five of those 19 improvements. The Council has identified five new improvements which means that there are 19 areas of improvement in total for 2022-23.

Areas of improvement completed in 2021-22 include: governance arrangements over subsidiaries (see also page 16 of this report); compliance with CIPFA's financial management code and governance of arrangements with partners and outside bodies (see also page 25 of this report).

New items added for 2022-23 includes: updating the Code of Governance; finalising the Council's Sustainability and Climate Change Strategy and reviewing the Council's Whistle Blowing Policy. (See page 15 of this report).

## Standards and complaints

The Council's Ethics Committee is responsible for considering matters relevant to ethical governance of the Council, its members or employees. The Ethics Committee met twice during 2021-22 to consider one investigation report into alleged breach of the members Code of Conduct. No breach was found to have occurred. A further four complaints had no further action following initial consideration by the Council's Monitoring Officer.

We have reviewed complaints made to the Ombudsman against the Council which shows that fifty (50) complaints were made between 1 April 2021 and 31 March 2022 (a 66% increase from 2020-21). Of those 50 complaints, 36 were closed by the Ombudsman after initial enquiry and did not warrant further investigation and 10 were upheld with the Ombudsman issuing of a statement. Although the number of complaints against the Council has increased this has not resulted in an increase in the number of complaints upheld by the Ombudsman.

Members of the Ethics Committee received mandatory training regarding their role and the Code of Conduct. The central register of interests, has been updated regularly and the Monitoring Officer has advised that they received regular questions about conflicts which provided them with reassurance that members are alive to issue.

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.

# Governance cont'd

## Monitoring and assessing risk

The Council has an appropriate Risk Management Strategy which defines processes for identifying, assessing, managing and monitoring financial and operational risks. Integral to this strategy is the maintenance of risk registers at the directorate and corporate level. The risk registers are part of the Risk Management Framework. The framework details procedures to identify, understand, manage and score risks and procedures for reporting risk at Directorate level and how to refer risks to the Strategic Management Board for inclusion on the Corporate Risk Register (CRR). Risks are scored and banded into three overall ratings - Red, Amber and Green - which allows the Council to concentrate on the 'top risks' - those in the Red and Amber rated.

The corporate risk register is only discussed at the Audit and Procurement Committee on an annual basis, this forms part of the annual financial planning cycle. Risks included on the Corporate Risk Register are sufficiently detailed to allow the Committee to focus on the key corporate risks. Each risk is also assigned to a designated owner, usually, the director for the service or speciality and its progress is tracked till the rating is green. There is no indication on the risk register as to when the risks were last reviewed. The Council has been unable to identify mitigations that bring risks within appetite for all risks. For example the Council has identified the risk of stability to the Childrens Services workforce. The assessed residual risk score of 16 is outside the Council's risk appetite but there are no further mitigating actions noted. It is not clear whether any further action is intended or if the Council is accepting the assessed level of residual risk with no further action. In the latter case we think that the reasoning as to why the Council is willing to accept such risks should be included. In this specific example the fact that the Council is accepting that impacts such as 'deterioration in services' and 'harm to children being missed' are likely to occur, then we consider some statement covering why the Council is accepting this should be included in the register. We have made an improvement recommendation in this respect.

## Internal audit

The internal audit function covers Internal Audit Services and Fraud and Error Services at the Council and at some of the Council's wholly owned subsidiaries. The in-house internal audit team comprises seven established roles including the Chief Internal Auditor. The Chief Internal Auditor is a chartered member of the Institute of Internal Auditors and additionally, holds a Certificate in Investigative Practice and an MSc Audit Management and Consulting. Three of the members of the team also hold relevant internal audit qualifications as well as certificates in investigative practice. We are satisfied that the internal audit team are suitably qualified. The Internal Audit function reports to the Director of Finance.

Internal audit services for public sector bodies are monitored by the Public Sector Internal Audit Standards PSIAS. The last PSIAS inspection at the Council took place over seven years ago. Last year we recommended that the Council should invite PSIAS for a compliance assessment which should be completed every 5 years. That assessment has still not taken place but is now scheduled for 2023-24. It is imperative that this assessment is undertaken at the earliest opportunity and a further improvement recommendation has been raised in this report regarding this issue.

The 2021-22 Internal Audit plan was presented to the Audit and Procurement Committee on 28 June 2021, this plan was based on 650 available delivery days. In Quarter 3, the Audit Team identified that the plan would not be delivered due to significant staff sickness. At that time, the audit team re-appraised the risks associated with the outstanding audits and prioritised those of highest risk and deferring those where the timing of delivery was not critical from a risk perspective. The plan was reduced to 470 days. The team delivered 409 days representing 63% of the original plan and 87% of the revised plan. The target was for the team to deliver 90% of the plan by 31 March 2022.

Despite the reduction in days the Audit team completed 47 audits in 2021-22 which compares favourably with the 49 audits completed in each of the previous two years. Only 2 audits resulted in a 'no' or 'limited' assurance level, these related to Business Rates and Parking Enforcement. The staffing issues did not impact the conduct of IT related audits as these are outsourced to an external specialist consultancy. The Annual Assurance Report was presented to the Audit and Procurement Committee on 27 June 2022 with an overall internal audit opinion of 'moderate assurance'. Prior to submission of the Annual Assurance report, quarterly progress against the annual internal audit plan was submitted to the Audit and Procurement Committee.

The staffing issues present in 2021-22 have now been resolved and the 2022-23 audit plan was set at 560 days to reflect that two of the new members of the audit team have been recruited at trainee level. All key financial systems were audited in 2021-22 and the three audits not completed in 2021-22 were completed early in 2022-23.

An improvement recommendation was included in Our Auditor's Annual Report in 2020-21 as the Council was behind in implementing several internal audit recommendations. The audit team has now reinstated its process for following up on recommendations (this had been suspended during the pandemic.). A recommendations tracking report is now also presented to the Audit and Procurement Committee. This allows Internal Audit to assess where further action or revisions to agreed actions are necessary as well as providing oversight to members.

# Governance cont'd

## Internal audit (cont'd)

As we reported in last year's AAR the internal audit service does not cover all of the Council's wholly owned subsidiaries. An improvement recommendation was made regarding the use of internal audit across the Council's subsidiaries and a need for transparency in arrangements. The Council has reinforced its governance around the subsidiary companies with the establishment of a group holding company and a new management committee which is a sub-committee of the Cabinet. The Council is still to decide what the role of Internal Audit should be with regard to that new structure. The Council wants the new governance structure to be fully embedded before deciding on this. There is evidence of scrutiny by the new committee and business plans have been agreed. That scrutiny however focuses on financial monitoring and although group governance agreements exist which are designed effectively the operation of these arrangements has not been independently tested. We have made a further improvement recommendation that that these arrangements should be subject to independent assurance as soon as possible.

## Counter Fraud and Bribery and Corruption

The Council's audit team also provide counter fraud services to the Council which includes employee fraud as well as fraud by members of the public. The team previously employed a dedicated Corporate Fraud and Error Officer who left their post in 2022 and has not been replaced. This post is to be transferred to the Revenues and Enforcement team to focus on Housing Benefit and Council Tax frauds using National Fraud Initiative (NFI) data matching. The audit team pursued its first successful prosecution in 2022 together with successful recovery under the Proceeds of Crime Act of £26k.

The internal Audit Service have led on the delivery of pre and post-payment assurance checks which have been required by the Department of Business, Energy, and Industrial Strategy (BEIS) to manage the risk of fraud and error in the Covid-19 grants scheme. To date the checks have identified 61 potentially fraudulent claims with a value of just under £0.5m. To put this in context the Council administered a total of 16,384 grants with a total value of £96m giving a fraud rate of approximately 0.5%.

There were three whistleblowing disclosures made during 2021-22, this is slightly below what would be expected (six reports in previous years) and the audit team is looking to promote the whistleblowing arrangements in 2023-24 as well as doing further work to raise awareness of corporate fraud.

One of the three concerns raised was partially substantiated with Management action taken to provide clearer audit trails around decision making. One was not substantiated after a preliminary investigation and one was closed without further action as the employee raising the concerns was advised to report the concerns by a more appropriate route. We have not identified any weakness in these arrangements.

We are satisfied that the Council has an appropriate internal audit service however the improvement recommendations set out on pages 18-19 need to be fully implemented to avoid these issues developing into significant weaknesses.

## Financial Reporting

The 2019-20 audit was recently signed on 10 October 2023. A significant number of misstatements have been identified by the audit team, which highlights concerns about the quality of the draft accounts but has also significantly lengthened the audit. The cause of the delays in the audit are primarily due to significant weaknesses in the Council's property valuation processes as well as significant deficiencies in the Council's group accounting. The Council was not able to complete the restatement of the 2019-20 accounts in a timely manner leading to continued delays in the audit process. We consider that this is an area of significant weakness for the Council and have raised a key recommendation on this matter.

## Budget Setting and Monitoring

The 2020/21 Capital and Revenue outturn was presented to Cabinet in July 2021. Quarterly financial monitoring reports were presented in August 2021, December 2021 and February 2021. A pre-budget report for 2022-23 was submitted to Cabinet on 14 December 2021 included the MTFS. This was updated when the budget setting report for 2022/23 was submitted to cabinet in February 2022. Forecasts are subject to a high level of challenge and scrutiny from Cabinet and sensitivity analysis is performed taken into accounts various scenarios for inflation, interest rate and pay award. Baseline budgets were adjusted to reflect the impact of Covid-19 thus ensuring a more realistic longer-term view rather than simply fixing the problem in year with one-off transfers of reserves.

The 2022-23 pre-budget report and 2022-23 budget summary included funding sources as well as assumptions for borrowing activities. Revenue assumptions are only finalised following directives from central government on annual settlements including the allowance and direction on council tax precepts.

# Governance cont'd

## Budget Setting and Monitoring (cont'd)

Budgets are managed by a designated budget holder. The Finance Department engages at least monthly with budget holders to review expenditure against agreed budgets.

Key variances to budget for 2021-22 included £8.9m variance across services directly attributable to Covid-19. There was also an overspend of £2.4m on childrens' services as a result of increased demand and reliance on high-cost external placements. A £4m overspend on Waste and Fleet services driven mainly by increased costs arising from an industrial dispute involving HGV drivers. There was a £2.3m underspend on Housing as a result of lower than anticipated numbers of households in temporary accommodation. None of arrangements. these variances could have been anticipated and do not represent a weakness in the Council's budgeting.

## Management Information Systems

The Council's website contains a good array of information about the Council. Members pictures, names and committee membership are available on the Council's website. We noted however that some of the website inks to various strategy documents are out of date or broken. An improvement recommendation has been made in this respect.

## Commercial ventures, outsourcing and shared service arrangements

The Council holds a portfolio of wholly owned and joint venture companies. The portfolio of commercial entities include companies delivering services to the Council (for example in waste and recycling) as well as strategic holdings in hospitality and economic regeneration.

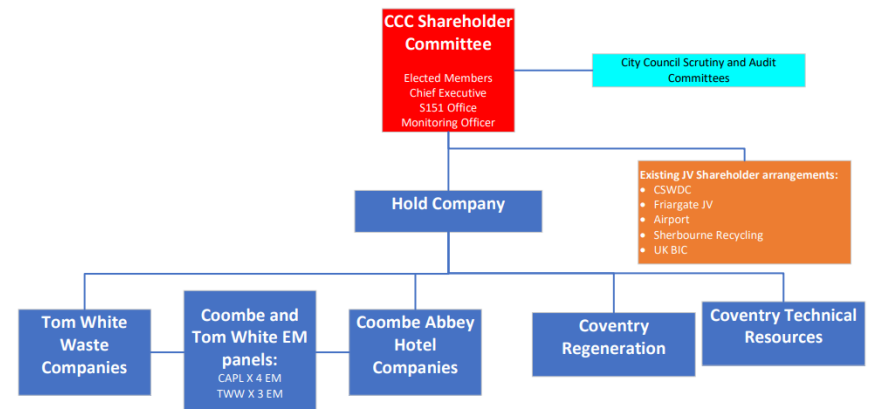
These include two wholly owned entities: Coombe Abbey Park Limited (CAPL) and Tom White Waste Limited (TWW); two joint ventures, The Coventry and Solihull Waste Disposal Company Limited (CWSDC), and Sherbourne Recycling Limited (SRL); and a strategic interest in a special purpose vehicle, the UK Battery Industrialisation Centre Ltd (UK BIC). There is a third joint venture, Friargate JV Project Limited (FJV).

In 2022, the Council has implemented a unified legal and governance approach to these organisations. This followed our in-depth review of those Governance arrangement, which resulted in an additional Annual Audit Report being issued by us in 2022. That report made 15 recommendations for improving the governance arrangements for subsidiary companies.

There has been good progress in implementing all these recommendations. Prior to this new governance approach, the Council operated a decentralised legal and governance structure, with each entity having its own governance procedures. The Council's wholly owned companies have been grouped under a single parent company Coventry Municipal Holdings Limited (HoldCo), which was incorporated on 26 October 2021. A Group Governance agreement relating to HoldCo and the trading companies was also established at that time. This included the constitution of the new shareholder committee; scrutiny arrangements; procurement policies and HR risk policy. The JV arrangements do not fall under the HoldCo but the JVs do report into the Shareholder Committee governance structure as shown in the diagram opposite.

The revised governance structure also 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. That shareholders committee is up and running with the Directors and members trained on their roles through mandated training provided by an external law firm. The s151 Officer has advised that in their opinion the Group Holding Company has enabled better scrutiny and decision making by members as it provides an improved overall view of risks. We consider that the revised structure is appropriate and will enable the Council to have an appropriate oversight of its companies and investments.

Figure 1: Coventry Municipal Holdings Limited Group





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# Governance cont'd

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## Conclusion

We consider the delays on finalising the financial statements to be a significant weakness and have raised a key recommendation regarding this matter.

Except for the Council's arrangements for the preparation of its financial statement, we consider that the Council has appropriate governance arrangements in place. We did identify four improvement recommendations relating to the external assessment of Internal Audit; an independent assessment of the governance of subsidiary companies and updates to the Council's website about information regarding its various strategies. These improvement recommendations are set out on pages 18 to 21.

# Improvement recommendations



## Governance

### Recommendation 3

Internal audit should be subject to a PSIAS review at the earliest opportunity.

### Why/impact

An ineffective Audit team will significantly weaken the Council's governance arrangements.

### Auditor judgement

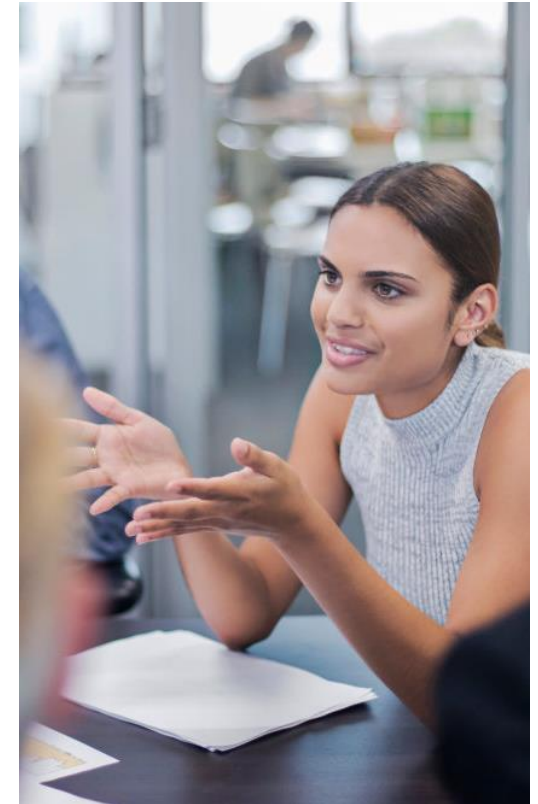
It is imperative that this assessment is undertaken at the earliest opportunity

### Summary findings

The last PSIAS inspection at the Council took place over seven years ago. Last year we recommended that the Council needs to invite PSIAS for a compliance assessment which should be completed every 5 years. That assessment has still not taken place but is now scheduled for 2023-24.

### Management Comments

The recommendation is accepted. It is planned that the Council's Internal Audit function will be subject to external review in 2023/24 in line with PSIAS guidelines. This will take the form of a self-assessment with independent external validation as approved by Audit and Procurement Committee on 26th June.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



## Governance

### Recommendation 4

The Corporate risk register should be reviewed by the Audit and Procurement Committee on a more regular basis and the risk register should include details of the date the risk was last reviewed as well as any reasons why the Council is accepting risks that remain outside of risk appetite where no further mitigating actions have been identified.

### Why/impact

The Corporate Risk register should be a live document that is subject to regular review to ensure risks are within risk appetite.

### Auditor judgement

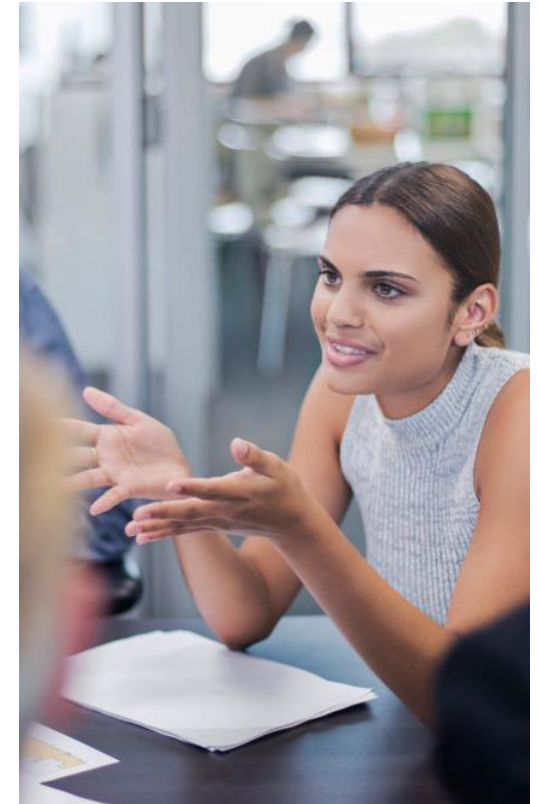
The Corporate risk register is not reviewed by Committee on a regular basis and it is difficult to identify when the risks were last updated or why the Council is accepting risks that remain outside of risk appetite.

### Summary findings

The Corporate risk register is only discussed at the Audit and Procurement Committee on an annual basis, this forms part of the annual financial planning cycle. There is no indication on the risk register as to when the risks were last reviewed or what specific actions are being undertaken to bring risks back within risk appetite.

### Management Comments

The Corporate Risk Register can be brought to the Audit and Procurement Committee twice a year subject to Committee's approval. The Register will be amended to include details of the date the risk was last reviewed. Management's understanding and intention is that any specific risk mitigation actions should be included within the Register. However, the nature of some of the risks is such that it is not always possible to identify mitigations that bring risks within appetite.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



## Governance

### Recommendation 5

An independent assurance review of the revised governance structure for the Council's subsidiary companies should be undertaken at the earliest opportunity.

### Why/impact

It is important that the Council obtains assurance regarding the effectiveness of these arrangements.

### Auditor judgement

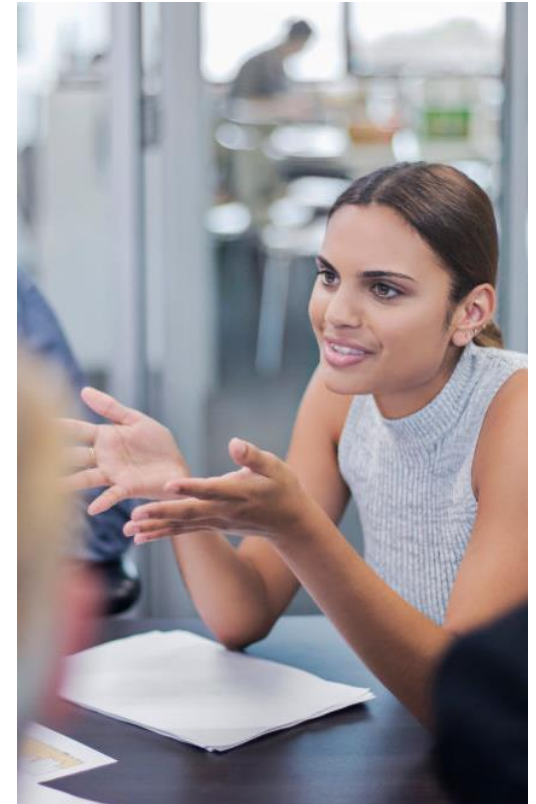
Independent assurance has not been obtained regarding the new governance arrangements and the audit of the Capital Programme remains outstanding

### Summary findings

There is evidence of scrutiny by the new committee and business plans have been agreed. That scrutiny however focuses on financial monitoring and although group governance agreements exist which are designed effectively the operation of these arrangements has not been independently tested.

### Management Comments

The Council will arrange for a review of the governance structure to be undertaken at an appropriate point following the embedding of existing arrangements.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



## Governance

### Recommendation 6

The Council should ensure that the website links to various strategies and plans are kept updated.

### Why/impact

This will improve transparency and accountability with key stakeholders including residents

### Auditor judgement

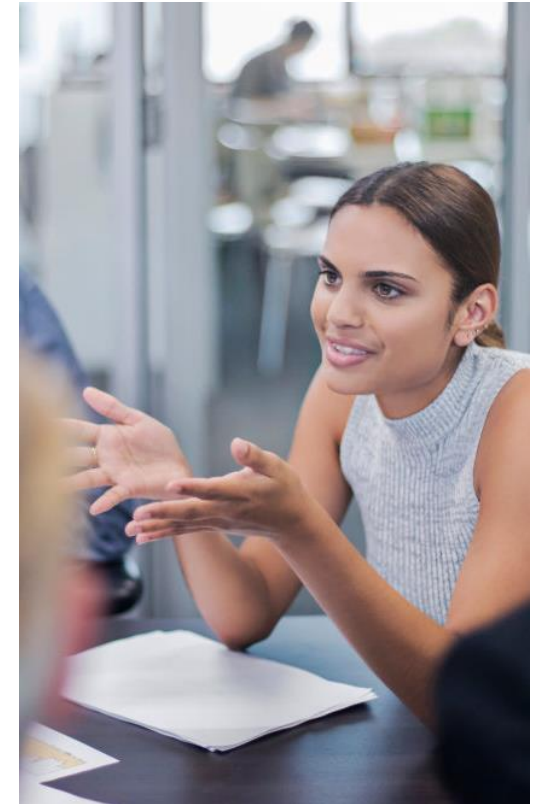
The Council has not maintained up to date links to various strategy and policy documents

### Summary findings

We noted that some of the website inks to various strategy documents are out of date or broken.

### Management Comments

The issue with the strategies link has been resolved. There is a link checker in place to report any future issues and notify the relevant team.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improving economy, efficiency and effectiveness



## We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

## Performance review and benchmarking:

The Council Plan, One Coventry, sets out the vision and priorities of the Council. The Council's current vision has three themes; 'globally connected', 'locally committed' and 'delivering our priorities with fewer resources'. The Plan is to be refreshed in 2022-23. An annual performance report for 2021-22 was considered by the Scrutiny Co-ordination Committee in July 2022 and presented to Cabinet in August 2022. The Council uses a balanced scorecard approach to manage its performance by not relying on solely financial measures but instead monitoring performance using outcomes, finance, workforce and quality measures.

The performance report against "The One Coventry Plan" is presented to the cabinet annually. The report is comprehensive and transparent and gives a clear view of the performance of the Council and its partners. The One Coventry Plan measured seventy-five 75 key performance indicators (KPIs) across the services provided in the Council. Each of the KPI's measured are linked to one of the Council's vision. In 2021-22 the Council reported that 32 metrics improved; 8 stayed the same; 18 declined. There were 10 metrics where improvement couldn't be measured and no data was available for 7 metrics due to exam cancellations..

Gross Domestic Product (GDP) per head of population decreased in 2021-22 however this trend is consistent with other Councils across England and was higher than the average of statistically near neighbouring Councils. The number of active enterprises in Coventry in 2021 remained the same as in 2020. This is low compared to Warwickshire and the WMCA average. The Council therefore intends to work to encourage new business start-ups and grow and expand existing ones.

Key achievements to increase the economic prosperity included increased use of grants to sustain businesses, development of Coventry Railway Station, and investments in light rail, Friargate, and the city centre.

In 2022, the Council has also been a key partner in Coventry City of Culture (which was delayed due to the pandemic) and in the introduction of the UK Battery Industrialisation Centre UKBIC to the area. This is being followed by the development of plans for a Gigafactory in the City. This has however been delayed due to decisions regarding government funding not being forthcoming.

KPIs for 'Improving outcomes and tackling inequalities' highlighted key achievements in this area including adult care users receiving adequate or better social care, prevention of homelessness, development of clean air plans, improvements in roads and pathways, and street and park cleanliness. Areas where further action is needed by the Council and its partners include numbers of children in care, key stage 4 and A level attainment, levels of crime, life expectancy, level of fly tipping, and household recycling which is below the national average. An innovative graphic highlighted life expectancy and related data using a city bus route to highlight differences across the city at different points along the bus route.

For tackling climate change the Council helped create an Independent Coventry Climate Change Board. The Board consists of senior representatives from major businesses, public agencies, charities, and voluntary organisations.

We have benchmarked expenditure per head of the Council with similar councils. Areas of high spend include children's social care and housing. These are discussed in more detail on the following pages.

# Improving economy, efficiency and effectiveness cont'd

## Children's Social Care

The Council has been assessed as good in all areas in a recent Ofsted inspection, marking a significant improvement from the previous 2015 assessment of inadequate. The Council has continued to invest in Children's Services but has faced a number of challenges.

The Council has had to face increased costs of residential placements where the average cost of 12 weeks placements have increased from approximately £4,000 to £8000 per placement. This increase is despite long term contracts and framework agreements, because of the number of emergency placements resulting in the Council having to face costs determined by 'spot markets'. To counter this the Council is investing in its own children's home which will attract match funding from the Department for Education (DfE).

There is also growing demand for services with that demand likely to remain for the foreseeable future. The cost of living crisis is likely to impact on this given the link between poverty and demand for children's services. The demand side is being managed through a local initiative 'Family Valued' which is looking to address the root cause via early intervention measures. The Council believes this initiative was a contributor to the 2022 Ofsted good rating and is also having a positive impact in reducing local demand.

The Council has also voluntarily accepted referral of Unaccompanied Asylum Seeking Children under the Home Office National Transfer Service, an increase in demand across this scheme has resulted in such referrals forming a greater proportion of all looked after children in Coventry. Many of these children will have more complex and expensive needs compared to local children, including the effects of various types of trauma.

The Council, as with most authorities, is also facing a challenge in the lack of available social workers. The Council has created a specific Workforce strategy including the development of a social worker academy and short-term incentive payments to staff. The recent Ofsted report and a further Youth Offending 2022 report where the Council was rated as outstanding indicates that the Council are delivering a quality of provision which has significantly improved since the previous Ofsted report in 2015. The relatively high average cost of this provision could however mean that there are opportunities for some efficiencies particularly with reducing the need for emergency placements. The Council's investment in building its own Children's Home will be an important aspect to this however there will still be a need for external emergency placements as well as the need to ensure the investment in its own home returns the savings envisaged. An improvement recommendation has been made in this respect.

## Housing Services

The Council's housing services had been overspending against budget year on year with a £3.4m overspend in 2020-21 due to high demand and costs of temporary accommodation. The Council delivered an underspend of £3m in 2021-22 primarily as a result of lower demand for temporary accommodation. This reduction has been as a result of investment by the Council in housing stock which is enabling it to reduce costs on temporary accommodation. The Council historically had low levels of housing stock meaning it faced having to utilise temporary accommodation commissioned through stock provided by the Salvation Army.

The Council has reviewed its property portfolio and recently purchased 31 houses plus the lease on block of flats. The Council has recently signed off on the purchase for 25 more property purchases. By owning and managing its own stock the Council can offset against Housing Benefit (HB) and claim back loan interest. This makes the purchases self-financing as the only spend is capital investment. Further for those tenants on HB the Council can claim back maintenance costs and lost income arising from gaps in tenancies (voids).

The Council's strategy is to try to obtain its own good quality temporary accommodation at low cost and then move residents into permanent accommodation as quickly as possible.

Financial management arrangements are appropriate with regular quarterly reports provided to a Strategic Housing Board. A report is made to the cabinet housing portfolio member at a weekly 1-2-1 where the numbers of families in temporary accommodation is closely monitored. The Council has calculated it saves £150 pw per placement as a result of this strategy and this has therefore outweighed any overprice paid for housing stock bought at the top of the market in recent years.

# Improving economy, efficiency and effectiveness cont'd

## Procurement

The Council has a procurement strategy that covers the financial periods from 2020 to 2025 and incorporates the 'One Coventry' Plan. The Council's governance arrangements over procurement are as follows:

In 2021-22 there were 171 tender waivers with a total annual value of £10m. 49 of these waivers had a contract value of over £100k. Two waivers were for contracts worth close to £1m each. The volume and value of waivers is not regularly reported to the Audit and Procurement Committee and an Improvement recommendation has been made in this respect.

Procurement and purchasing decisions are key to delivering value for money not just in terms of cost but also to deliver social value and meeting the Council's drive to improve local skills and growth strategies. The Council is looking to maximise those non-financial benefits including increased numbers of apprenticeships and upskilling local Small or Medium size enterprises (SME) businesses. The Council has recently surveyed all local SMEs to establish baseline data for diversity in its supply chain and identify barriers to procurement for SMEs. This should enable the Council to review its Contract Procedure Rules to address issues arising. The Council is also preparing for the forthcoming Procurement Bill which will impact Public Contract Regulations, which in turn will impact the Council's Procurement Strategy and Contract Procedure Rules.

The Council is also reviewing TOMs (Targets, Outputs and Measures) for Contract Management purposes to enable it to assess the broader impacts of its purchasing beyond price-based metrics and aligning TOMs to the Council's Social Value Policy.

Contract management is inconsistent across different service areas. What the service heads do (methodology) is consistent, however there are no unified systems or tools. The Council is currently reviewing the use of its e-procurement portal to embed Contract Management into that tool. The Council has determined that the current KPI function in the tool is not fit for purpose and are therefore working with portal provider to change this. It is vital that the revised Procurement strategy is aligned to the Council's Digital Transformation program in order to maximise efficiencies within the purchasing processes. We have made an improvement recommendation in this respect.

There is a schedule in the procurement tender documents regarding bribery and corruption (ABC) and Procurement staff take the Chartered Institute of Procurement and Supply (CIPS) ethics test which includes ABC and modern slavery statements.

## Commercial ventures, outsourcing and shared service performance

Commercial activity is aligned to the Council's over-arching 'One Coventry' plan and each active subsidiary company has an agreed annual business plan. Individual investments made by these companies also consider how they can contribute to different elements of the plan, for example the Council's investment into a hotel which sits within and complements a 'green space' park area which is also owned and operated by the Council, other investments have considered the cultural as well as financial benefits. With the exception of the above hotel all the investments fall within the Council's geographical boundary.

The annual performance report for April 2021 to March 2022 for Coventry Municipal Holdings and its subsidiaries states that there have been several challenges with regards to the financial position for the subsidiaries in the group with the leisure sector recovering from the impact of Covid-19 and Tom White Waste Ltd (TWW) experiencing additional costs mainly due to the reliability of plant, machinery and vehicles well as additional costs of third-party waste disposal.

- **Coombe Abbey Park:** financial performance in 2021/22 was impacted by partial trading due to Covid-19 restrictions; refinancing of the existing loans in the company provided allowed the company to manage its financial commitments and outgoings whilst recovering from the impact of limited trading; staff shortages following Covid-19 restrictions being relaxed and the impact of Brexit; new contracts being secured and existing contracts performing well. The hotel was closed for 5 months (January – May 2022).
- **The Coventry and Solihull Waste Disposal Company Limited (CSWDC)** is profit generating, despite the impact of Covid-19, making £33.0 million of revenue and £12.4 million net profit in 2021-22.
- **Tom White Waste Limited (TWW):** the company is profit generating, despite the impact of Covid-19, making £12.5 million of revenue and £391,000 Net Profit in FY21. The Business Plan that was presented to the Coventry Shareholder Committee in March 2022, included the redevelopment of the material recycling facility which will increase waste recovery from 7% to 70%, reducing waste to landfill and contributing towards a positive impact on the environment.
- **No Ordinary Hotels Limited:** this is currently a dormant company. There were no transactions in this company for the year.2021-22.



# Improving economy, efficiency and effectiveness cont'd

## Commercial ventures, outsourcing and shared service performance (cont'd)

- **Sherbourne Recycling Limited (SRL):** was established in 2021 as a joint venture to develop and operate a new state of the art materials recycling facility in Coventry on behalf of eight local authorities. The financial risk is therefore shared across several councils. For the Council there have been benefits arising from reduced transportation costs of approximately £0.5m per year as previously such waste had to be transported some considerable distance out of borough.
- **UK Battery Industrialisation Centre Ltd (UK BIC):** was established in 2017. Its purpose is to deliver a laboratory and production facility for prototype batteries to be scaled on small runs. The Council's ownership is strategic. Financing came via grant funding. UK BIC assets are charged back to UKRI, meaning that the Council could not sell them. In December 2021 UK BIC secured an operating expenses grant from UKRI. Any shortfalls in finances are underwritten by central government as guarantor and not the Council. The Council has had two officers actively involved in UK BIC. Their role covers project governance, overseeing the construction of the UK BIC facility, and operational governance, working with UK BIC directors to manage the company. UK BIC does not report through Hold Co and instead reports directly into the new Shareholder's Committee.

## Partnership working

The Council currently partners with schools, the Home Office, the police, local health and voluntary sectors to ensure equality of services provided across its communities. An example of the partnership in schools is one where resources are shared across a couple of schools preventing the costs of recruiting or resourcing each school. This measure helps the Council to better manage resources while improving performance across schools and is evidenced by the number of schools settings within the Council adjudged by Ofsted as good or outstanding to increase from 42% to 95%.

The Council works with anchor institutions which are large, public sector organisations that are unlikely to relocate and have a significant stake in a geographical area. To effectively monitor partnerships, the Council has developed the 'One Coventry approach' which aims to shape the way the Council works with its partners to improve the city and improve people's lives. In September 2021 the Council created a board level role of the Chief Partnerships Officer to lead on some of these partnerships.'

A key partnership in 2021-22 was the 'Family Valued' Programme. This aims to identify low income families who may need support at an early stage to prevent subsequent need for more expensive services.

## Conclusion

Overall, we found no evidence of significant weaknesses in the Council's arrangements for improving economy, efficiency and effectiveness. We have identified two opportunities for improvement, set out on pages 26 and 27.



# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 7

The Council should consider how to further avoid high placement costs whilst also ensuring the investment in its own children's home delivers the anticipated savings on placement costs.

## Why/impact

Average cost of service provision is currently assessed as high when compared to near neighbours.

## Auditor judgement

The relatively high average cost of this provision could mean that there are opportunities for some efficiencies particularly with reducing the need for emergency placements

## Summary findings

The relatively high average cost of this provision could however mean that there are opportunities for some efficiencies particularly with reducing the need for emergency placements. The Council's investment in building its own children's home will be an important aspect to this however there will still be a need for external emergency placements

## Management Comments

The Council accepts this recommendation although it is important to note the pressure around high-cost placements is a local, regional, and national issue. Whilst Coventry will take steps to manage this risk there is a critical role for central government in addressing the broken market for private provision.

Work is underway to ensure there are sufficient placements available locally, both in terms of numbers and quality, to meet the needs of children and young people who require our care. Coventry is continuing to develop internal provision by approving further investment in its own children's homes and strengthening our internal fostering offer. Coventry is leading on the recommissioning of the West Midlands regional framework for both independent fostering agencies and residential care. There are robust internal governance arrangements in place to monitor the operational and financial impacts of these initiatives.



The range of recommendations that external auditors can make is explained in Appendix B.

# Improvement recommendations



Improving economy, efficiency and effectiveness

## Recommendation 8

Procurement Tender Waivers should be reported to the Audit and Procurement Committee on a quarterly basis. The Council should also ensure the new Procurement Strategy is aligned to the Council's Digital Transformation Strategy.

## Why/impact

The value and volume of tender waivers is an indicator of the effectiveness of the Council's procurement processes. It is also vital that the revised Procurement strategy is aligned to the Council's Digital Transformation program in order to maximise efficiencies within the purchasing processes.

## Auditor judgement

Volume and value of tender waivers is not tracked by the Audit and Procurement Committee. Contract Management is inconsistent across different service areas.

## Summary findings

In 2021-22 there were 171 tender waivers with a total annual value of £10m. 49 of these waivers had a contract value of over £100k. Two waivers were for contracts worth close to £1m each. The volume and value of waivers is not regularly reported to the Audit and Procurement Committee. What the service heads do (methodology) is consistent, however there are no unified systems or tools for Contract Management.

## Management Comments

Reports to the Council's Audit and Procurement Committee now include information in relation to tender waivers (Exceptions to Contract Procedure Rules) as recommended. Given the retrospective nature of the information and the current reporting cycle of Audit and Procurement Committee, 6 monthly reporting of this information is considered adequate and appropriate subject to Committee's approval. The Council's Procurement Strategy is being reviewed and a revised version should be completed within 12 months. This will be aligned to the Council's key strategies.



The range of recommendations that external auditors can make is explained in Appendix B.

# Follow-up of previous recommendations

Recommendation	Type of recommendation	Date raised	Progress to date	Addressed?	Further action?	
1	The Council should prepare a rolling annual cash flow forecast as part of its treasury management processes.	Improvement	July 2022	The Council still does not have a written cashflow statement. In mitigation the Council does set out a detailed income and expenditure forecast,	No	A further improvement recommendation has been made (See page 11)
2	Internal audit recommendations should be implemented promptly by management, and this should be rigorously enforced by the Audit Committee - this includes medium as well as high risk items.  Internal audit should be subject to a PSIAS review at the earliest opportunity.  Internal audit should cover all of the Council's subsidiaries.	Improvement	July 2022	A recommendations tracking report is now also presented to the Audit and Procurement Committee.  An independent assessment against PSIAS standards has not taken place but is now scheduled for 2023-24  The Council is still to decide what the role of Internal Audit should be with regard to governance around the subsidiary companies.	No	A further improvement recommendation has been made (See pages 18 and 19)
3	The Council should develop corporate level KPIs to monitor consultation with the procurement team, and application of procurement policies.	Improvement	July 2022	Revised reporting arrangements are in place with the Audit and Procurement Committee	Yes	No
4	The Council's Annual Performance report would be enhanced by including more KPI's on cost in the section: 'delivering our priorities with fewer resources'.	Improvement	July 2022	Ne KPIs have been introduced as part of the 'One Coventry Plan'	Yes	No
5.	The Council should review the unit costs of providing housing services across the various cost categories.	Improvement	July 2022	Key drivers for the high average cost of housing provision have been identified as costs of temporary accommodation. The Council has a plan to tackle this issue..	Yes	No

# Opinion on the financial statements



## Audit opinion on the financial statements

We have not commenced our 2021/22 financial statements audit. Our work has been delayed due to the prolonged 2019/20 audit and the ongoing 2020/21 financial statements audit.

## Other opinion/key findings

A significant number of misstatements have been identified by the audit team during the course of the 2019/20 audit, which highlights concerns about the quality of the draft accounts but has also significantly lengthened the audit. The cause of the delays in the audit are primarily due to significant weaknesses in the Council's property valuation processes as well as significant deficiencies in the Council's group accounting.

## Grant Thornton provides an independent opinion on whether the accounts are:

- True and fair
- Prepared in accordance with relevant accounting standards
- Prepared in accordance with relevant UK legislation

We have concluded that the delays and errors in preparation of the financial statements are a significant weakness in the Council's financial reporting arrangements. The delays in preparation of the financial statements could expose the Council to financial risk as well as failure to meet statutory reporting deadlines.

## Conclusion

Due to the matters outlined above with regard to the council's 2019/20 and 2020/21 financial statements audit, we have concluded that the Council does not have appropriate arrangements in place for the preparation of its financial statements. We have raised a key recommendation on this matter.



# Appendices

# Appendix A – Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

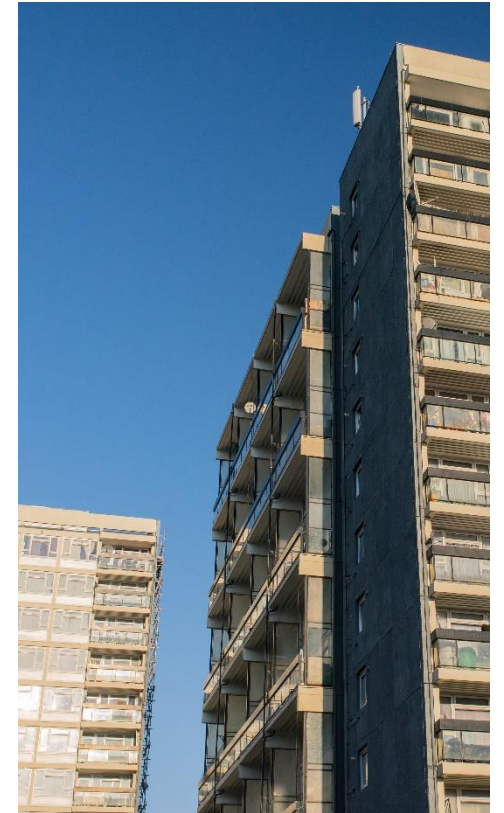
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) or equivalent is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B – An explanatory note on recommendations

A range of different recommendations can be raised by the Council’s auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/a
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of their arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as ‘key recommendations’.	Yes	Page 7
Improvement	These recommendations, if implemented should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council’s arrangements.	Yes	Pages 11-12 Pages 18-21 Pages 26-27



