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To all Members of the Audit and Procurement Committee

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31st August 2015

Our ref: C/LMK

Dear Member,

Supplementary Agenda – Meeting of the Audit and Procurement Committee - Monday, 3rd August, 2015

You should by now have received the agenda and documentation for the above meeting. The purpose of this letter is to advise you of an additional item for consideration at that meeting.

With the agreement of the Chair (Councillor Skipper), the following report is to be considered as urgent business at the above meeting, the reason for urgency being the need for the matter to be considered alongside the Statement of Accounts. The document had not previously been available due to a delay in the submission of information from the Department for Education.

5a The Audit Findings for Coventry City Council (Pages 3 - 36)

Report of the External Auditor

If you have any queries, please do not hesitate to contact me.

Yours sincerely

Lara Knight
Governance Services Team Leader

Membership: Councillors S Bains (Deputy Chair), J Blundell, L Harvard, T Sawdon, B Singh and T Skipper (Chair)



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The Audit Findings for Coventry City Council

Year ended 31 March 2015

3 August 2015

John Gregory
Director

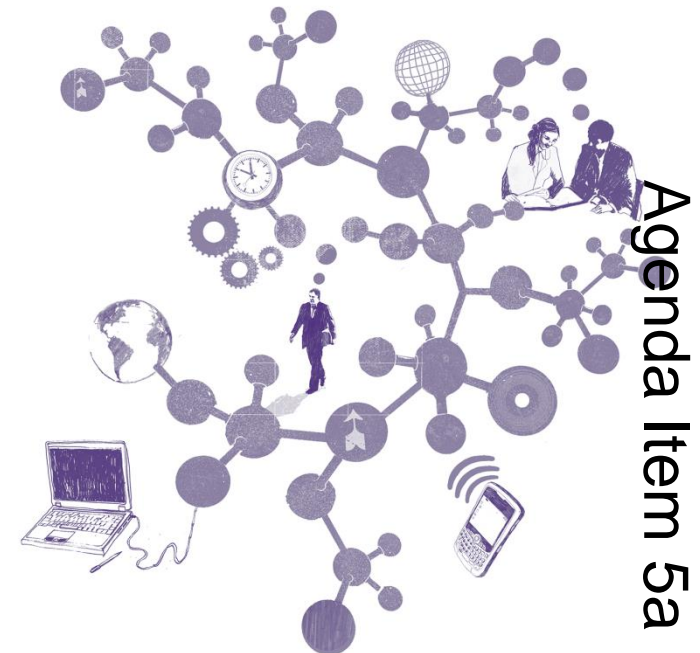
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Coventry City Council
Council House
Earl Street,
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3 August 2015

Dear Members of the Audit and Procurement Committee

Audit Findings for Coventry City Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Coventry City Council, the Audit and Procurement Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

John Gregory
Engagement lead

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Coventry City Council's (the Council) group and Council financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the group and Council's financial statements present a true and fair view of the financial position and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 23 March 2015.

Our audit is substantially complete although we are finalising our work in the following areas:

- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts
- final consideration of evidence in relation to improvements in children's services.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

We are pleased to report that this year's audit has progressed smoothly, with audit queries being responded to in a prompt and constructive manner. The Council produced its draft financial statements two weeks earlier than in the previous year. This enabled the audit to start earlier and, hence, has helped to bring forward the date of issuing this report to the Audit and Procurement Committee. The Council produced draft accounts to a good standard and with an overall high level of compliance with disclosure requirements.

The audit identified some misclassification errors and disclosure omissions in the draft financial statements. The more significant of these errors and omissions are detailed on page 17 of this report. These errors and omissions, which do not have any impact on the Council's overall financial position, have since been corrected.

Net assets and total reserves on the group balance sheet were overstated by £46.7m. This arose because the revaluation of the Council's investment in CSWDC in 2013/14 was not excluded from the group accounts. This error has since been corrected.

Further details are set out in section two of this report.

Executive summary

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Value for Money conclusion

We will take a final decision on our VFM conclusion once we have had an opportunity to fully evaluate recent evidence in relation to improvements in children's services. We are satisfied with all other aspects of the Council's arrangements for securing value for money. Further detail of our work on Value for Money is set out in section 3 of this report.

There was a small overspend of £2.2m on the Council's revenue budget in 2014/15, due largely to rising cost pressures in adult social care and services for looked after children. The Council continues to make significant savings, though it has not met its challenging savings targets in full for the last three years. The Council will need to deliver planned savings if it is to maintain its sound financial position.

Whole of Government Accounts (WGA)

We have recently been provided with the Council's WGA return. Our work on this return is underway and will be completed in advance of the national submission deadline.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to the raising of accruals and timely issuing of credit notes. Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Executive Director of Resources.

We have made a number of recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Executive Director of Resources and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2015

Section 2: Audit findings

01. Executive summary

02. Audit findings

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Audit findings

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In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Procurement Committee on 23 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 23 March 2015.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Coventry City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Coventry City Council, mean that all forms of fraud are seen as unacceptable. 	<p>We have determined that the risk of fraud arising from revenue recognition can be rebutted.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Walkthrough of the key controls for this system • Performance of substantive testing on material expenditure streams and creditors • Review of accounting estimates, judgments and decisions made by management. 	<p>Testing found £28k of revenue accruals which had not been raised which should have been raised. This error resulted in operating expenses for 2014/15 being understated. The extrapolated results of our testing found that the projected error is an immaterial sum. This means that no adjustments need to be made to the financial statements.</p> <p>Whilst this had no impact on revenue, testing also found that £731k of capital accruals had not been raised which should have been raised. This is an immaterial sum and so no adjustment needs to be made to the financial statements.</p> <p>These findings do raise concerns, however, about the adequacy of the Council's internal controls in this area. This is covered further in the 'Internal controls' section of this report.</p>
Employee remuneration	Employee remuneration accrual understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Walkthrough of the key controls for this system • Performance of substantive testing on material expenditure streams. 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefit expenditure improperly computed	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Walkthrough of the key controls for this system • Testing of the final Housing Benefit claim will be completed using the HB COUNT methodology, with assurance for the financial statements taken from the testing of the initial sample of 20 cases per benefit category and other modules of the HB COUNT approach. 	Our audit work has not identified any significant issues in relation to the risk identified.

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.



Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Coventry and Solihull Waste Disposal Company Limited (CSWDC)	Yes	Targeted	Investments carrying value	Review and testing of arrangements in place to produce group accounts.	Our audit work identified that: <ul style="list-style-type: none"> the long term investments balance in the group balance sheet was overstated by £46.7m. This arose because the revaluation of the Council's investment in CSWDC in 2013/14 was not excluded from the group accounts inter-group transactions between the Council and CSWDC of £4.1m were not eliminated during the consolidation process. The group accounts have been adjusted to correct these errors.
Arena Coventry Limited*	Yes	Targeted	Investments carrying value	Review and testing of arrangements in place to produce group accounts.	Our audit work has not identified any issues
Coventry North Regeneration Limited	No	Analytical	None	Analytical procedures at the Group level	Our audit work has not identified any issues
North Coventry Holdings Limited	No	Analytical	None	Analytical procedures at the Group level	Our audit work has not identified any issues

* During 2014/15 the Council sold its shares in Arena Coventry Limited (held by the Council via North Coventry Holdings Limited). We reviewed the accounting treatment of this transaction as part of the audit and did not identify any issues.



Accounting policies, estimates & judgements

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In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.




Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Government grants and contributions are recognised in the Comprehensive Income and Expenditure Account when there is reasonable assurance that the payment will be received and conditions will be satisfied. Fees, charges and rents due from customers are accounted for as income at the date the council provides the relevant goods or services. 	<p>The accounting policy is appropriate and has been adequately disclosed.</p> <p>An issue in respect of revenue recognition has been reported on page 16. This issue arose because of an incorrect application of the accounting policy, rather than the policy itself being inappropriate. The error identified was in respect of an immaterial sum.</p>	 Green
Estimates and judgements	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> useful life of capital equipment pension fund valuations and settlements revaluations Impairments PPE valuations. 	<p>There has been appropriate disclosure of key estimates and judgements</p>	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Judgement - premises used by voluntary aided schools	The Council do not recognise these premises as assets on its balance sheet.	We have reviewed the Council's accounting policy and are satisfied that it is appropriate. Following audit, Note 3.3 has been expanded so that it adequately discloses management's judgement in this area.	 Green
Going concern	The Executive Director of Resources has concluded that the services provided by the Council will continue for the foreseeable future. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.	We have reviewed the Executive Director of Resources' assessment and are satisfied that the going concern basis is appropriate for the 2014/15 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, Estimates & Judgements– review of issues raised in prior year

2014/15

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>Estimates and judgements - Private Finance Initiative (PFI)</p> <p>Note 3.21 discloses the Council's assets and liabilities in respect of their PFI contracts. As part of the 2013/14 audit we assessed the accuracy of the liabilities by comparing the figures produced by the Council's PFI accounting models to those produced by our accounting models. This work identified some differences in the outputs between the two accounting models. We were satisfied that these differences did not have an impact on our opinion on the 2013/14 financial statements. However, we recommended that officers should consider these issues in further detail as part of the preparation of the 2014/15 financial statements.</p>	<p>Officers reviewed the Council's PFI accounting models in light of the issues raised by the 2013/14 audit. They concluded that the Council's models needed to be adjusted to correct the issues identified. The adjusted models have been used to produce the figures disclosed in the 2014/15 financial statements. No adjustments were needed in respect of prior periods for this issue as the sums involved are not material.</p>

Assessment
 ✓ Action completed
 X Not yet addressed

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.


	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Procurement Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council
4.	Disclosures	<ul style="list-style-type: none"> Our review identified some omitted disclosures in the financial statements. The more significant of these omissions are detailed in the 'Misclassifications and disclosure changes' section of the report. The financial statements have been adjusted to include these required disclosures.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from third parties for the Council's material loans, bank and short term investment balances. These confirmations did not raise any issues about the sums recognised in the Council's financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Operating Expenses, Employee Remuneration and Welfare Expenditure as set out on page 10 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendation
1.		<p>Our testing on the financial statements found:</p> <ul style="list-style-type: none"> • £731k of capital accruals had not been raised which should have been raised • £28k of revenue accruals had not been raised which should have been raised • an invoice for £89k was issued in error in March and the credit note to cancel it was not issued until May. This delay in issuing the credit note resulted in the income of £89k being incorrectly recognised in the 2014/15 financial statements. <p>None of these errors are evidence of a material error in the financial statements and no adjustments are needed to the financial statements in respect of them. However, our investigation into the reasons for these errors found that they arose through:</p> <ul style="list-style-type: none"> • internal controls not operating effectively when officers left the Council's employment • lack of understanding of the Council's financial procedures by officers who replaced officers who had left the Council's employment • human error. 	<p>The Executive Director of Resources should:</p> <ul style="list-style-type: none"> • ensure that all officers responsible for raising accruals and credit notes understand what is required of them • arrange appropriate training for officers who have recently taken on financial responsibilities as part of their role.

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	23,345	Comprehensive Income and Expenditure Statement (CIES)	Gross expenditure within 'Cost of services' was understated by £23.3m because it incorrectly included entries in respect of asset revaluation. These entries were also incorrectly omitted from 'Other comprehensive income and expenditure'. This misclassification, which has been corrected, had no impact on the Council's total comprehensive income and expenditure for 2014/15.
2 Disclosure	15,000	CIES	The material items table at the foot of the CIES did not include the 'Reversal of equal pay claim provision' of £15,000k which took place in 2013/14. This was disclosed in the 2013/14 financial statements but was mistakenly omitted from the comparative figures in the 2014/15 financial statements.
3 Disclosure	n/a	Note 3.2 – Events after the balance sheet date and Note 3.25 – Contingent liabilities	A Judicial Review held in June 2014 considered the Council's decision to make a loan to Arena Coventry Limited. The initial judgement on the review found in the City Council's favour although the Court of Appeal gave permission in July 2015 for this to be appealed. Following this latest event, appropriate disclosure has been added to Notes 3.2 and 3.25.
4 Disclosure	n/a	Note 3.3 – Judgements made by management	The note has been expanded to explain more fully the factors the Council have considered in reaching their judgement that the land and buildings used by voluntary aided schools should not be recognised on the Council's balance sheet.
5 Disclosure	592	Note 3.22 – Officer's remuneration	The note has been expanded to include exit packages of £592k (within the £250-300k band) which had been mistakenly omitted from the financial statements submitted for audit.
Disclosure	Various	Note 3.36 – Prior period restatements	The note has been expanded to include the impact of the prior period adjustment on the balance sheet as at 31 March 2013

Section 3: Value for Money

01. Executive summary

02. Audit findings

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Value for Money

Value for money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work concluded that the Council has strong arrangements for securing financial resilience. Its overall financial position remains challenging, given the level of savings that it needs to find in order to set balanced budgets in future years. The Council will need to continue to deliver planned savings if it is to maintain its sound financial position. The Council's sound financial governance and planning arrangements make it well placed to meet this challenge.

There was a small overspend of £2.2m on the Council's revenue budget in 2014/15, due largely to rising cost pressures in adult social care and services for looked after children. The Council will need to continue to monitor expenditure against the 2015/16 revenue budget closely.

The Council's General Fund reserve remains low and the adequacy of this reserve will need to be assessed in the light of the financial risks facing the Council over the medium and long term.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

The Council has adequate arrangements in place to identify and deliver savings. It is embarking on an ambitious programme for radically changing the way in which it delivers services, including Kickstart, Customer Journey and Workforce Strategy. The Council has delivered significant savings in recent years, but has not met its total savings target for the last three years. Rising cost pressures in children's social care services are the largest single reason for this. The Council must continue to try to identify realistic ways of making savings in the medium term in respect of children's social care services.

Value for Money

An Ofsted inspection of children's services in March 2014 judged the services provided by the Council to be inadequate. Because of the severity of Ofsted's findings, we issued a qualified value for money conclusion in 2013/14. With the outcome and outputs of these vital services judged inadequate by the relevant regulator, we judged that these services did not have adequate arrangements for ensuring value for money.

The Council have been working hard to address the issues raised by the Ofsted inspection. In particular, the Council has:

- established a Children's Services Improvement Board which focuses specifically on the work being undertaken within Children's Service to improve service provision
- ensured very strong leadership and commitment to addressing the issues
- put an improvement plan in place with strong arrangements for monitoring
- made significant additional resources available to Children's Services.

Officers from the Department of Education (DfE) have performed two reviews of children's services since the Ofsted inspection, in January and June 2015. The resulting Ministerial letters commented that:

- the introduction of the Multi-Agency Safeguarding Hub appears to have been successful in bringing contributions from different agencies together
- the Council is taking forward innovative practice, such as piloting a Family Drugs and Alcohol Court
- the Council's work on permanency planning has resulted in 79% of children being placed for adoption within 18 months of entering care.

However, the latest review has commented that:

- more work needs to be done to improve the consistency and quality of practice
- there is a significant issue in respect of involvement of all partners in child protection strategy discussions, though the review did note the determination of the Council, its partners and the Chair of the Local Safeguarding Children's Board to find an urgent solution.

It is clear that the Council has put strong arrangements in place to address the issues highlighted by Ofsted and that there is very strong commitment to driving these through. Implementation of the improvement plan is starting to have a significant impact on performance, but the Council, the Improvement Board and DfE all recognise that the Council is on a journey and that continuing work is needed.

Overall VfM conclusion

The Council have only recently been provided with feedback from the latest DfE review and we are still evaluating whether this further evidence is sufficient for us to remove the qualification which was in place last year. The remainder of our Value for Money work is complete and has not raised any issues which would lead us to conclude that the Council has not put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
Key indicators of performance	<p>The Council has:</p> <ul style="list-style-type: none"> not faced any cash flow issues in 2014/15 debt levels which appear to be affordable, with four fifths of it having a maturity of more than 10 years falling employee costs incurred a small overspend against its 2014/15 revenue budget, due largely to rising cost pressures in respect of adult social care and children's social care services. <p>The Council's earmarked reserves have increased but the General Fund reserve has fallen to just over £5m. A comparison of levels of usable reserves to other similar local authorities shows that the Council has below average earmarked and general fund reserves (as at 31/3/14).</p> <p>The Executive Director of Resources should:</p> <ul style="list-style-type: none"> continue to assess the adequacy of the General Fund reserve in the light of the financial risks facing the Council over the medium and long term review earmarked reserves to ascertain whether they are sufficient for the Council's needs. 	Amber
Financial governance	<p>The Council has:</p> <ul style="list-style-type: none"> adequate arrangements in place to make Cabinet aware of financial matters, through timely and comprehensive reports adequate internal and external engagement in the budget setting process. 	Green

Theme	Summary findings	RAG rating
Strategic financial planning	<p>The Council has:</p> <ul style="list-style-type: none"> adequately considered the main issues, both local and national, that it faces in agreeing its medium term financial plan adequately reflected the results of its medium term planning in its 2015-16 revenue and capital budgets made reasonable and adequate planning assumptions in its medium term financial plan identified and taken account of funding cuts in its medium term financial plan a fully funded capital programme in place. <p>The Council needs to maintain its sound financial position by continuing to :</p> <ul style="list-style-type: none"> keep tight financial control keep the medium term financial plan up-to-date and plan for a range of potential scenarios ensure that planned saving programmes are delivered assess the future funding needs of children's social care services. 	Amber
Financial control	<p>The Council has:</p> <ul style="list-style-type: none"> performed adequate options appraisals to evaluate and support cost reduction plans robust efficiency plans in place, including timescales, which set out savings targets and how they will be delivered arrangements in place to deliver long-term sustainable savings rather than short-term efficiencies has a strong history of delivering significant savings, though savings targets have not been met in full for the last three years. 	Green
Prioritising resources	<p>The Council has adequate arrangements in place to:</p> <ul style="list-style-type: none"> challenge delivery methods and consider alternative options consult with key stakeholders when challenging delivery methods and alternative options inform and make key decisions on how to make savings to services understand the impact and outcome of decisions that it makes. 	Green
Improving efficiency & productivity	<p>The Council has:</p> <ul style="list-style-type: none"> adequate arrangements in place to understand its costs and inform its reviews of where cost savings in service delivery can be made sound IT systems and data quality arrangements in place. <p>However, there is scope to improve reporting to Cabinet in respect of performance against savings targets. We are still evaluating the evidence provided to us in respect of the actions that the Council are taking to address the issues identified by the Ofsted inspection of children's services in March 2014.</p>	Amber

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services

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Fees

	Per Audit plan £	Actual fees £
Council audit	231,280	231,280
Grant certification on behalf of Audit Commission	20,930	20,930
Total audit fees	252,210	252,210

Fees for other services

Service	Fees £
Audit related services	
Certification of teachers pension return for 2013/14	4,200
Certification of teachers pension return for 2014/15	4,200
Non audit related services	
Tax advice on structuring for Coventry & Solihull Waste Disposal Company	12,796

Independence and ethics

Ethical standards and International Standards on Auditing ISA (UK&I) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- the mother of one member of the audit team is employed by the Council as a deputy headteacher of a primary school. We put appropriate safeguards in place by ensuring that the member of the audit team had no involvement in testing of employee remuneration transactions or testing of any financial transactions involving the primary school.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

Communication of audit matters to those charged with governance

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International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

Appendices

Appendix A: Action plan

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Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>The Executive Director of Resources should:</p> <ul style="list-style-type: none"> ensure that all officers responsible for raising accruals and credit notes understand what is required of them arrange appropriate training for officers who have recently taken on financial responsibilities as part of their role. 	High	<p>The following actions will be incorporated into the 2015/16 accounts closedown procedures:</p> <ul style="list-style-type: none"> The raising of accruals and credit notes will receive a higher profile within the Final Accounts communication material for the 2015/16 closedown. Final Accounts training will cover this aspect specifically. Additional checks will be undertaken at year end to ensure greater accuracy in this area. 	<p>March-April 2016</p> <p>Finance Manager, Corporate Finance</p>
2	<p>The Executive Director of Resources should:</p> <ul style="list-style-type: none"> continue to assess the adequacy of the General Fund reserve in the light of the financial risks facing the Council over the medium and long term review earmarked reserves to ascertain whether they are sufficient for the Council's needs. 	High	<p>The Local Government Act 2003 requires the Executive Director of Resources to give assurance on the adequacy of reserves of the Authority when it sets its budget each year. The adequacy of all reserves will continue to be monitored and reported at key points through the annual financial cycle process.</p>	<p>On-going</p> <p>Executive Director of Resources</p>

Appendix A: Action plan (continued)

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	<p>The Council needs to maintain its sound financial position by continuing to :</p> <ul style="list-style-type: none"> • keep tight financial control • keep the medium term financial plan up-to-date and plan for a range of potential scenarios • ensure that planned saving programmes are delivered • plan for how savings will be made in the medium term in respect of children's social care services. 	High	<p>On-going maintenance of tight financial control continues to be a key focus for the Council as demonstrated by its continued sound budgetary control performance and enforced by more timely budgetary control information through the Council's new financial information system.</p> <p>Rolling medium term financial planning forecasts reflecting a range of potential scenarios continue to be maintained and Members are being informed of these within the forthcoming Budget Setting process.</p> <p>Key savings programmes are being delivered within specific projects and are subject to specific monitoring by the Council's Strategic Management Board.</p> <p>The Council is continuing to focus on ensuring that Children's services are resourced to meet the immediate demands of the service across Coventry. Over the medium term, it will be necessary to ensure that social care and early intervention services are delivered in a way that strikes an appropriate balance between service need and the achievement of value for money, including managing the service at lower cost compared with 2015/16 levels.</p>	On-going Executive Director of Resources

Appendix A: Action plan (continued)

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Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	The annual outturn report to Cabinet should compare actual savings delivered against those that were planned. The reporting should be at the same level of detail as the Budget Report so that members can compare actual against budgeted performance	Medium	This monitoring will be incorporated within the 2015/16 Outturn Report.	May 2016 Finance Manager, Corporate Finance

Appendix B: Audit opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF COVENTRY CITY COUNCIL

We have audited the financial statements of Coventry City Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Collection Fund and the related notes, including the Statement of Accounting Policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

This report is made solely to the members of Coventry City Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Executive Director or Resources and auditor

As explained more fully in the Statement of Responsibilities, the Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Executive Director of Resources; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword, overview of the Council's financial performance in 2014/15 and the overview of group accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Coventry City Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword overview of the Council's financial performance in 2014/15 and the overview of group accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We are required to report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998; or
- we designate under section 11 of the Audit Commission Act 1998 a recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority’s arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

To be confirmed.

Certificate

We certify that we have completed the audit of the financial statements of [name of client] in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

John Gregory
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
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xx August 2015



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