



Resources Directorate

Chris West
Executive Director
Council House
Earl Street
Coventry CV1 5RR

Telephone 024 7683 3333
DX 18868 COVENTRY 2

Please contact Lara Knight
Direct line 024 7683 3237
lara.knight@coventry.gov.uk

To all Members of the Audit and Procurement Committee

22nd July 2016
Our ref: C/LMK

Dear Member,

Supplementary Agenda – Meeting of the Audit and Procurement Committee - Monday, 25th July, 2016

The papers for the above meeting were circulated on 15th July 2016. At the time of publication, the Audit Findings Report was not available. That document has now been received and is attached to this letter. Please include them with your papers for the meeting.

In addition, I have also received an addendum to the Audited 2015/16 Statement of Accounts which sets out a small number of amendments. That document is also included with this letter for consideration at the meeting.

- **Agenda Item 9. AUDIT FINDINGS REPORT 2015/16** (Pages 3 - 46)
Report of the External Auditor (Grant Thornton)
- **Agenda Item 10. AUDITED 2015/16 STATEMENT OF ACCOUNTS**
(Pages 47 - 48)
Report of the Executive Director of Resources

NOTE: Councillor J Mutton, Cabinet Member for Strategic Finance and Resources, has been invited to attend the meeting for the consideration of this item.

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

Yours sincerely

Lara Knight
Governance Services Co-ordinator

Membership: Councillors S Bains (Chair), R Brown, J Clifford (Deputy Chair), J Lepoidevin, T Sawdon and H Sweet

By invitation: Councillors M Mutton, Skipper

The Audit Findings for Coventry City Council

Year ended 31 March 2016

25 July 2016

John Gregory
Director

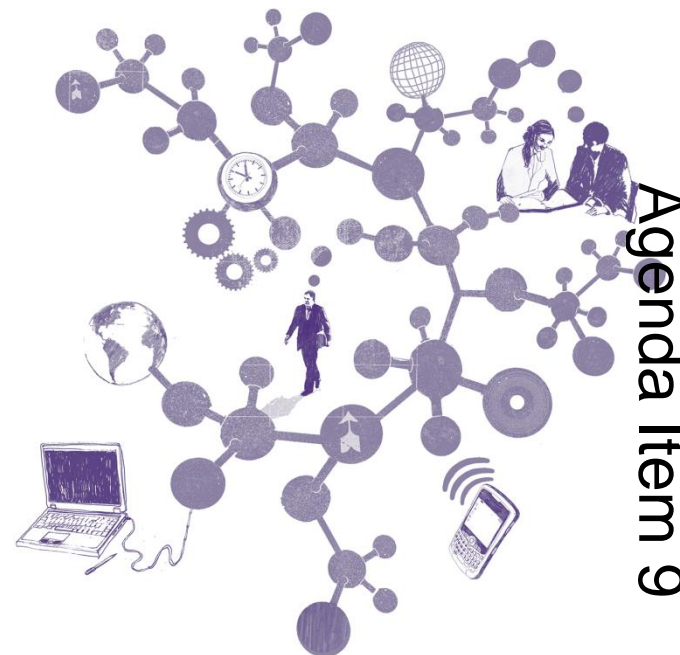
T 0121 232 5333
E john.gregory@uk.gt.com

Simon Turner
Manager

T 0121 232 5273
E simon.a.turner@uk.gt.com

Paul Harvey
In-Charge Auditor

T 0121 232 5329
E paul.m.harvey@uk.gt.com



Agenda Item 9

Coventry City Council
Council House
Earl Street,
Coventry,
CV1 5RR

25 July 2016

Dear Members of the Audit and Procurement Committee

Audit Findings for Coventry City Council for the year ending 31 March 2016

This Audit Findings report highlights the key 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, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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 and giving a value for money conclusion. 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

Grant Thornton UK LLP
Colmore Plaza
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

(T +44 (0)121 212 4014)

www.grant-thornton.co.uk

Chartered Accountants

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Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Coventry City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, assessing whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

We communicated our audit approach to you in our Audit Plan dated 15 February 2016. Our audit approach has remained largely unaltered, though we have amended our approach in respect of the performance of key controls testing for Employee Remuneration and Operating Expenses. The reasons for this change of approach are detailed further in the 'Internal Controls' section of the report.

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

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

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

Part 3 Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements (see Appendix B).

We are pleased to report that, once again, the audit has progressed smoothly, with audit queries being responded to in a prompt and constructive manner. The Council produced its draft financial statements by the end of May, which enabled the audit to start two weeks earlier than in the previous year. This has also led to earlier reporting 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 in the 'Misclassifications and disclosure changes' section of this report. These errors and omissions, which do not have any impact on the Council's overall financial position, have since been corrected.

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

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes the:

- Narrative Report, including the Overview of the Council's Performance in 2015/16
- Overview of Group Accounts
- Annual Governance Statement.

We have not identified any issues which we would be required to report by exception

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 Council's key financial IT systems. Further details are provided within the 'Internal Controls' section of this report.

Value for Money

With the exception of our work in respect of children's services, 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 2016. We are still in discussions with officers about the improvements being made in respect of children's services and, therefore, have not yet concluded our work in this area. Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit and Procurement Committee. We aim to present this report to the Committee at its meeting on 19 December 2016.

The way forward

Matters arising from the financial statements audit and our 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 at Appendix A. Recommendations have been discussed and agreed with the Executive Director of Resources and the finance team.

Acknowledgement

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
July 2016

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £14,352k (being 1.75% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and, following receipt of the draft financial statements, revised our overall materiality to £13,550k (being 1.75% of outturn gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £677k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration and salary bandings in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£10,000
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error, its potential impact on users of the financial statements and its materiality for the related party

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>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</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; and • the culture and ethical frameworks of local authorities, including Coventry City Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have completed the following testing:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride 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 judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have completed the following testing:</p> <ul style="list-style-type: none"> • review of entity controls • review of management's processes and assumptions for the calculation of the estimate • review of the competence, expertise and objectivity of management experts used • review of the instructions issued to valuation experts and the scope of their work • discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions • review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work has not identified any issues in respect of valuation of property, plant and equipment.</p>

Audit findings against significant risks continued

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	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>We have completed the following testing:</p> <ul style="list-style-type: none"> • Identification of the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • Review of the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</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
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <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.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <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. 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: <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 rent allowance cases 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

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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	Yes	Targeted	Investments carrying value	Review and testing of arrangements in place to produce group accounts.	Our audit work has not identified any significant issues .
Coventry North Regeneration Limited	No	Analytical	None	Analytical procedures at the Group level	Our audit work has not identified any significant issues .
North Coventry Holdings Limited	No	Analytical	None	Analytical procedures at the Group level	Our audit work has not identified any significant issues .

Accounting policies, estimates and judgements



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
<p>Revenue recognition</p>	<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. The Council's accounting policies have been expanded to clarify the recognition of Council Tax and Business Rates income.</p>	<p style="text-align: center;">● Green</p>
<p>Judgements and estimates</p>	<ul style="list-style-type: none"> • Key estimates and judgements include: <ul style="list-style-type: none"> • useful life of capital equipment • revaluations • impairments • PPE valuations • pension fund valuations and settlements • accruals. 	<p>There has been appropriate disclosure of key estimates and judgements</p> <p>The Council's long term investment in Birmingham Airport Holdings Limited was valued in 2012 and this valuation has been reviewed annually since then. These subsequent reviews have not indicated that there has been a material change in the valuation. By 2016/17 over five years will have elapsed since the original valuation was performed. Management should consider whether it needs to commission a new valuation for 2016/17.</p>	<p style="text-align: center;">● Green</p>

Assessment

Accounting policies, estimates and judgements continued

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Accounting area	Summary of policy	Comments	Assessment
Going concern	The Executive Director, Resources has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code 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 related parties	<ul style="list-style-type: none"> Note 3.24 has been expanded to include disclosures in respect of transactions between the Council and two organisations in which officers are involved with (The Westwood Academy and City College, Coventry). The note has also been expanded to disclose the value of works and services commissioned by the Council from organisations in which members had an interest and the value of grants paid by the Council to organisations in which members had positions on their boards.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, including specific representations in respect of the Group.
5.	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. We also requested direct confirmations for a sample of bank accounts operated by schools. We obtained 9 of the 10 confirmations sought and, in respect of the 1 confirmation not received, we undertook alternative procedures, including agreement of the year end balance to an original copy of the bank statement held by the school.
6.	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.
7.	Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or is otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>HM Treasury have only recently published the local government data collection tool for local government and related guidance. HM Treasury have consequently extended the deadlines for local government WGA submissions. We intend to complete this work by mid-September, well in advance of the 21 October deadline for the consolidation pack to be submitted.</p>


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 stated in our Audit Plan that part of our audit approach would be the performance of key controls testing in respect of Employee Remuneration and Operating Expenses. We changed our approach during the audit and did not perform the planned key controls testing. The reason for this change in approach was the outcome of our testing on the Council's general IT controls, which identified three significant deficiencies. These deficiencies are detailed in the table overleaf, along with management's response to our findings and our recommendations. As the Employee Remuneration and Operating Expenses systems are heavily reliant on the use of IT we concluded that we should not attempt to place reliance on key controls for these systems.


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.

Internal controls (continued)

	Assessment	Issue and risk	Recommendation	Management response
1.		<p>Inappropriate segregation of duties among IT staff</p> <p>Members of the program maintenance group for Agresso have permanent access to development, test, and production environments. These individuals also have direct access to make job schedule changes and edit data directly in the database at all times. This access is not monitored through the use of system audit logging. This condition poses the following risks to the Council:</p> <p>a) Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by (1) making unauthorised changes to system configuration parameters, (2) creation of unauthorised accounts, (3) making unauthorised updates to their own account's privileges, or (4) deletion of audit logs or disabling logging mechanisms.</p> <p>b) Required maintenance and support requests may not be resolved (or may not be resolved timely) due to competing administrative and operational responsibilities.</p> <p>c) Security administration processes (such as user administration processes) may not function consistently or reliably over time to control access to information assets.</p> <p>d) Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.</p> <p>e) Systems maintenance process does not function consistently or reliably to ensure quality change management</p> <p>f) Systems lack functionality, controls, and data integrity</p>	<p>In accordance with generally accepted segregation of IT duties principles, members of the program maintenance group for the Agresso application should not be granted greater than read-only access to production environments. In order to effectively restrict the range of capabilities of users with development access, we recommend that such users have their access removed from the production environment, job scheduling functionality, and direct data-level edit functionality. Alternatively (if management chooses to accept the risks associated with this access), management should implement a formal / documented monitoring process designed to review the actions performed by these individuals in the Agresso production environments. This monitoring can be achieved through after-the-fact reports listing the actions (e.g., transactions posted, queries executed, records updated) performed within production or through use of fire-fighter / fire-call user accounts.</p>	<p>This point will be challenging to address with current staffing levels and budgetary constraints. Initial analysis indicates that we do not have the numbers of staff to be able to segregate duties in the way described. The segregation between the Money Matters team and ICT works well so there will be further exploration as to whether duties could be split out further there – but it is expected that a risk assessment will have to be undertaken and signed off. This work will be complete in October 2016.</p> <p>Responsible Officer: Head of ICT Strategy Systems & Development</p>


Internal controls (continued)

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	Assessment	Issue and risk	Recommendation	Management response
2.		<p>Ineffective design of leaver disablement process</p> <p>We reviewed the process by which Council employees have their access to IT systems terminated. The IT Service desk is notified of leaver activity only once a week. Our sample testing established that suitable documentation for this process is not maintained. Records are not consistently retained that show the date on which accounts were disabled. There is also no process for disabling the access of non-payroll employees, eg contract or agency staff.</p> <p>This condition poses the following risk to the Council:</p> <p>a) Access to information resources and system functionality may not be restricted on the basis of legitimate business need</p> <p>b) Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls</p> <p>c) Terminated employees may continue to access information assets through enabled, no-longer-needed user accounts</p> <p>d) Revocation of access rights may not be performed accurately, comprehensively, or on a timely basis</p>	<p>Management should make the following improvements to the process for managing leavers:</p> <ul style="list-style-type: none"> • HR should send daily reports of leaver activity to the IT Service Desk. • Service desk tickets should be logged for leavers to enable an audit trail to be maintained of when the termination was requested, when the account was actually disabled and by whom. • All non-payroll employees should be assigned an expiration date on their Windows AD accounts. • All documentation relating to leavers should be clearly identifiable and retained for a period of at least one year. 	<p>A weekly report of leavers is currently automatically generated using data from our Payroll system, this is passed to the service desk to action to schedule AD accounts for deletion.</p> <p>However, management accept that there is more that could be done here and proposes the following immediate actions:-</p> <ul style="list-style-type: none"> • Leavers will be processed by the service desk on a daily (rather than weekly) basis. All leave requests will be logged via the SCSM Service Desk call reporting system. • Staff will be reminded not to action a user creation, change or deletion request without ensuring that a related SCSM ticket exists. • Although all currently non-payroll AD accounts created since 20 May 2015 have an expiry date all requests for new AD accounts for non-payroll employees will be changed to ensure that an expiry date of 1 month is automatically added by default and not changeable by the user requesting the account. • All current non-payroll AD accounts will be audited and all without an expiry date will have one added. • All non-payroll accounts with expiry dates will have these dates reviewed and altered if they are not expiring within the next six months. • Work is already well under way on this actions with developments already made to link user accounts closer to the HR system and processes. <p>This work will be completed by 31st October 2016</p> <p>Responsible Officer: Head of ICT Infrastructure & Operations.</p>

Assessment
 Significant deficiency – risk of significant misstatement

Internal controls (continued)

	Assessment	Issue and risk	Recommendation	Management response
3.		<p>Security administration rights granted to those performing financial reporting processes or controls</p> <p>Five individuals who are responsible for performing financial reporting processes or controls have the ability to administer security within Agresso. The combination of financial reporting duties and security administration is considered a segregation of duties conflict, as such users would be in a position to commit and cover up fraudulent or inappropriate actions within Agresso.</p> <p>This condition poses the following risks to the Council:</p> <p>a) Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by (1) making unauthorised changes to system configuration parameters, (2) creation of unauthorised accounts, (3) making unauthorised updates to their own account's privileges, or (4) deletion of audit logs or disabling logging mechanisms.</p> <p>b) Required maintenance and support requests may not be resolved (or may not be resolved timely) due to competing administrative and operational responsibilities.</p> <p>c) Security administration processes (such as user administration processes) may not function consistently or reliably over time to control access to information assets.</p> <p>d) Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.</p>	<p>The responsibility of administering security within Agresso should be transferred to IT system administrators who do not perform financial reporting processes or controls. All security administration rights within Agresso granted to personnel performing financial reporting processes and controls should be revoked.</p> <p>Alternatively, management should implement a formal / documented monitoring process designed to detect misuse of administrative functionality by personnel responsible for performing financial reporting processes or controls.</p>	<p>Management accept the findings.</p> <p>Some of the people who are responsible for supporting the development of the system and for providing cover in periods of absence are core finance users and it is not practical to remove all of the access from these people.</p> <p>However, we will look to set up a super-user role which does not have access to set up roles and user accounts nor to delete audit logs/disable logging.</p> <p>We will also look to develop a monitoring process to ensure the system is not being misused.</p> <p>This will be in place by 31st October 2016.</p> <p>Responsible Officer: Finance Manager Corporate Finance</p>

Assessment

● Significant deficiency – risk of significant misstatement

Internal controls – review of issues raised in prior year

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	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>Our testing on the 2014/15 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 were evidence of a material error in the financial statements and no adjustments were 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>Following our audit of the 2014/15 financial statements we recommended that the Executive Director, 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. <p>Our sample testing on the 2015/16 financial statements found evidence of a revenue accrual of £43k not being raised when it should have been raised. However, we are satisfied that this error only had a trivial impact on the financial statements, even after the results of our sample testing were extrapolated. Therefore, we have concluded that the internal control issue which arose in 2014/15 has now been adequately addressed.</p>

Assessment
 ✓ Action completed
 X Not yet addressed

Misclassifications and 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	20,287	Comprehensive Income and Expenditure Statement (CIES) Loss on disposal of fixed assets	This is in respect of schools transferring to academy status. The Council have previously treated such transfers as an impairment of the asset value. However, CIPFA have issued revised guidance clarifying that such transfers should now be treated as de-recognitions rather than as impairments. The impact of this change in accounting policy is to reduce the Cost of Services by £20,287k and to increase Other Operating Expenditure by £20,287k. This re-classification has no impact on the Council's overall financial position. Note 5.6 in the Statement of Accounting Policies ('Property, Plant and Equipment, Investment Property and Assets Held for Sale') has also been updated to reflect this change of policy.
2 Disclosure	n/a	CIES	A note has been added to the foot of the CIES to explain the large reduction in gross expenditure on 'Central Services to the Public' between the current and prior year
3 Disclosure	n/a	Note 3.2 – Events after the Balance Sheet Date	The note has been expanded to consider the potential impact on the Council of the United Kingdom leaving the European Union.
4 Misclassification	954	Note 3.8 – Property, Plant and Equipment	Expenditure in respect of the Council's new City Centre Leisure Centre was originally capitalised. However, because the Council will not own the asset the expenditure has been reclassified as Revenue Expenditure Funded from Capital Under Statute.

Misclassifications and 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
5 Disclosure	50,000	Note 3.17 – Financial Instruments	The 'Market Risk' section of the note discloses the impact that a 1% increase in interest rates would have on the fair value of fixed rate borrowing liabilities. The draft financial statements disclosed that the impact of a 1% increase would be £34m. This was subsequently amended to £50m following identification of an error in how the figure had been calculated.
6 Disclosure	Various	Note 3.19 – Retirement Benefits	The note has been expanded to include a sensitivity analysis in respect of the assumptions made by the actuary when estimating the net pension liability for: <ul style="list-style-type: none"> the Local Government Pension Scheme the cost of awarding added years following the premature retirement of teachers.
7 Disclosure	Various	Note 3.36 – Pooled Budgets	The format of the note has been amended to clarify precisely how expenditure on the Better Care Fund has been accounted for. In particular, the revised note: <ul style="list-style-type: none"> analyses the expenditure on separate workstreams according to the nature of the Council's resourcing and decision making processes includes a table which discloses details of the total contributions made, and expenditure incurred, by the Council and the CCG. <p>The value of Better Care Fund grant disclosed in Note 3.31 has been amended to £13,790k from £10,792k. This adjustment ensures that there is consistency of reporting in respect of Better Care Fund in Notes 3.31 and 3.36.</p> <p>Note 5.21 ('Joint Operations') has been added to the Statement of Accounting Policies to clarify the Council's accounting in respect of pooled budgets.</p>

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated 15 February 2016. Following discussion of the Audit Plan with you on 15 February 2016 we added a further risk in respect of partnership working between the Council and the NHS.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the Council's arrangements for medium term financial planning and identifying savings
- the Council's response to addressing weaknesses in the delivery of children's services
- how the Council is managing the delivery of the Kickstart programme
- the Council's arrangements for working with the NHS to deliver strategic priorities.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section of the report.

Overall conclusion

As detailed later in this section of the report, our work in respect of children's services is still underway. 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 2016. The text of our report, which can be found at Appendix B, assumes that the conclusion will be unqualified in respect of children's services.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement. Management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Medium term financial planning The Council faces an uphill task to balance its finances over the medium term. The gap between income and spending plans is estimated at £10m for 2017/18, rising to £36m for 2019/20.</p>	<p>We assessed whether the Council is:</p> <ul style="list-style-type: none"> • producing and using appropriate and reliable financial information to support informed decision making and performance management • producing reliable and timely financial reporting that supports the delivery of strategic priorities • planning its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions. 	<p>We found that the Council has:</p> <ul style="list-style-type: none"> • an agreed, balanced financial plan for 2016/17, though its latest forecasts indicate that it is struggling to deliver planned cost savings, especially within the People Directorate • identified and taken account of funding cuts in its medium term financial plans • taken into account the financial impact of demographic trends and other social pressures in its medium term financial plans • has arrangements in place to identify cost savings in 2017/18 and beyond, though detailed plans are needed in order to achieve a balanced position over the medium term • produced monitoring reports for members on a timely basis. <p>The Council's financial position at the end of 2015/16 continued to be sound. If the Council is to maintain this position over the medium term then it needs to:</p> <ul style="list-style-type: none"> • deliver planned savings programmes and draw up detailed plans for how future savings will be generated • continue to keep tight control over its finances • keep the medium term financial plan up-to-date and ensure that it covers a range of potential scenarios. <p>On that basis we concluded that the Council is:</p> <ul style="list-style-type: none"> • planning finances effectively to support its strategic functions • making informed decisions.

Significant risk	Work to address	Findings and conclusions
<p>Ofsted inspection of children's services An Ofsted inspection of children's services in March 2014 judged the services provided by the Council to be inadequate. The Council have been working hard to address the issues raised but further improvements are still required and a re-inspection by Ofsted is also awaited.</p>	<p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the Council's arrangements for responding to the issues raised by the Ofsted inspection and consider their adequacy • considered whether the Council has arrangements in place to work effectively with third parties to improve services. 	<p>Because of the severity of Ofsted's findings, we issued a qualified value for money conclusion in 2013/14. The Council were able to demonstrate in 2014/15 that it had put adequate arrangements in place to address the issues highlighted by Ofsted and we therefore removed the qualification. We have revisited this issue in 2015/16 and have found that the Council:</p> <ul style="list-style-type: none"> • has continued to work with the Children's Services Improvement Board which focuses specifically on the work being undertaken within Children's Service to improve service provision • has strong political and corporate commitment to addressing the issues • is continuing to make significant additional financial resources available to Children's Services • has achieved greater stability in the population of children that they are looking after • is moving on from managing demand to improving the quality of practice, supported by a more robust approach to audit and continuous improvement • is implementing a workforce strategy which has seen the recruitment of a significant number of new social workers. <p>Officers from the Department of Education (DfE) performed a review of children's services in February 2016. The resulting Ministerial letter commented that there have been improvements since the last Ofsted inspection and reflected positively on the newly appointed Director of Children's Services and the steps he has taken to improve auditing and quality assurance. However, the letter did express concerns about the consistency of progress across the entire service and the pace of improvement.</p> <p>We are still in discussions with officers about the improvements being made in respect of children's services and, therefore, have not yet concluded our work in this area.</p>

Significant risk	Work to address	Findings and conclusions
<p>Kickstart The Council's 'Kickstart' programme aims to deliver savings, make the Council more efficient and customer focused and support regeneration across the city.</p>	<p>We assessed whether the Council is:</p> <ul style="list-style-type: none"> • using appropriate performance information to monitor the delivery of the project • managing risks in respect of the project effectively • managing and utilising assets effectively • working with third parties effectively. 	<p>We found that the Council is:</p> <ul style="list-style-type: none"> • using appropriate information to monitor the delivery of the project • managing risk in respect of the project effectively • managing and utilising assets effectively • working with third parties effectively • preparing detailed plans for how the estimated £5m of annual savings from Kickstart will be delivered. <p>On that basis we concluded that the Council is:</p> <ul style="list-style-type: none"> • deploying resources effectively • making informed decisions • working effectively with third parties.
<p>Health & Social Care Integration The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. The Council is working with the NHS to deliver a complex and high profile project.</p>	<p>We assessed whether the Council has adequate arrangements in place to work with the NHS to deliver strategic priorities, particularly in respect of delayed discharges.</p>	<p>We found that the Council:</p> <ul style="list-style-type: none"> • recognises that there needs to be greater integration of health and social care services and that this will be achieved through effective cross-sector working • is working with a range of local NHS bodies to develop a strong strategic vision and direction of travel, which includes being involved in the drafting of a Sustainability and Transformation Plan for health services in Coventry and Warwickshire • is able to demonstrate strong partnership working in respect of public health services • did not meet most of the targets set in the 2015/16 Better Care Fund plan, including those in respect of delayed discharges. However, the Council has shown that these delays were attributable to local NHS bodies rather than to the Council • has demonstrated its commitment to working with partners to further integrate health and social care services. <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for working effectively with third parties to improve services.</p>

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Council is required to respond to publicly
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We have not used this duty
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We have not used this duty
5.	Application for judicial review	<ul style="list-style-type: none"> We have not used this duty

Section 5: Fees, non-audit services and independence

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non audit services and independence**
- 06. Communication of audit matters

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

Fees

	Budget £	Actual £
Council audit	173,460	173,460
Grant certification	13,523	13,523
Total audit fees (excluding VAT)	186,983	186,983

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Certification of teachers pension return for 2015/16	4,200
• Certification of local transport plan major project grant (Nuckle)	4,200
Non-audit services	0

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

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International Standards on Auditing ISA (UK&I) 260, as well as other 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit	✓	✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	Management should consider whether it needs to commission a new valuation for its long term investment in Birmingham Airport Holdings Limited for 2016/17.	Medium	We will consider the need to commission a new valuation for the airport in conjunction with the other West Midlands councils	March 2017 Finance Manager (Corporate Finance)
2.	In accordance with generally accepted segregation of IT duties principles, members of the program maintenance group for the Agresso application should not be granted greater than read-only access to production environments. In order to effectively restrict the range of capabilities of users with development access, we recommend that such users have their access removed from the production environment, job scheduling functionality, and direct data-level edit functionality. Alternatively (if management chooses to accept the risks associated with this access), management should implement a formal / documented monitoring process designed to review the actions performed by these individuals in the Agresso production environments. This monitoring can be achieved through after-the-fact reports listing the actions (e.g., transactions posted, queries executed, records updated) performed within production or through use of fire-fighter / fire-call user accounts.	High	This point will be challenging to address with current staffing levels and budgetary constraints. Initial analysis indicates that we do not have the numbers of staff to be able to segregate duties in the way described. The segregation between the Money Matters team and ICT works well so there will be further exploration as to whether duties could be split out further there – but it is expected that a risk assessment will have to be undertaken and signed off. This work will be complete in October 2016.	October 2016 Head of ICT Strategy Systems & Development

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3.	<p>Management should make the following improvements to the process for managing leavers:</p> <ul style="list-style-type: none"> • HR should send daily reports of leaver activity to the IT Service Desk. • Service desk tickets should be logged for leavers to enable an audit trail to be maintained of when the termination was requested, when the account was actually disabled and by whom. • All non-payroll employees should be assigned an expiration date on their Windows AD accounts. • All documentation relating to leavers should be clearly identifiable and retained for a period of at least one year. 	High	<p>A weekly report of leavers is currently automatically generated using data from our Payroll system, this is passed to the service desk to action to schedule AD accounts for deletion.</p> <p>However, management accept that there is more that could be done here and proposes the following immediate actions:-</p> <ul style="list-style-type: none"> • Leavers will be processed by the service desk on a daily (rather than weekly) basis. All leave requests will be logged via the SCSM Service Desk call reporting system. • Staff will be reminded not to action a user creation, change or deletion request without ensuring that a related SCSM ticket exists. • Although all currently non-payroll AD accounts created since 20 May 2015 have an expiry date all requests for new AD accounts for non-payroll employees will be changed to ensure that an expiry date of 1 month is automatically added by default and not changeable by the user requesting the account. • All current non-payroll AD accounts will be audited and all without an expiry date will have one added. • All non-payroll accounts with expiry dates will have these dates reviewed and altered if they are not expiring within the next six months. • Work is already well under way on this actions with developments already made to link user accounts closer to the HR system and processes. 	<p>31st October</p> <p>Head of ICT Infrastructure & Operation</p>

Appendix A: Action plan

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Ref No.	Recommendation	Priority	Management response	Implementation date & responsibility
4.	<p>The responsibility of administering security within Agresso should be transferred to IT system administrators who do not perform financial reporting processes or controls. All security administration rights within Agresso granted to personnel performing financial reporting processes and controls should be revoked.</p> <p>Alternatively, management should implement a formal / documented monitoring process designed to detect misuse of administrative functionality by personnel responsible for performing financial reporting processes or controls.</p>	High	<p>Management accept the findings.</p> <p>Some of the people who are responsible for supporting the development of the system and for providing cover in periods of absence are core finance users and it is not practical to remove all of the access from these people.</p> <p>However, we will look to set up a super-user role which does not have access to set up roles and user accounts nor to delete audit logs/disable logging.</p> <p>We will also look to develop a monitoring process to ensure the system is not being misused.</p>	<p>31st October 2016</p> <p>Finance Manager, Corporate Finance</p>
5.	<p>If the Council is to maintain a sound financial position over the medium term then it needs to:</p> <ul style="list-style-type: none"> • deliver planned savings programmes and draw up detailed plans for how future savings will be generated • continue to keep tight control over its finances • keep the medium term financial plan up-to-date and ensure that it covers a range of potential scenarios. 	High	<p>The Council will continue to keep tight strategic control of its financial position and maintain a medium term plan that incorporates a range of financial scenarios. We are in the early stages of drawing up detailed savings plans for 2017/18 and beyond to ensure that the Council continues to deliver balanced budgets despite the challenging financial position.</p>	<p>On-going</p> <p>Executive Director of Resources</p>

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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

We have audited the financial statements of Coventry City Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. 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 of 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 2015/16, which 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 require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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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 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 Narrative Report, the Overview of the Council's Performance in 2015/16, the Overview of Group Accounts and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Overview of the Council's Performance in 2015/16, the Overview of Group Accounts and the Annual Governance Statement is consistent with the Group audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in '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 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Signature – to be added

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

The Colmore Building
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

Date - to be added



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Audit and Procurement Committee

25th July 2016

Title:

Audited 2015/16 Statement of Accounts

Amendments to previously circulated 2015-16 Statement of Accounts

Section 3.17: Financial Instruments. Page 42 - The fair value level for 'Stock Value' has been amended to correctly indicate Level 2, rather than 1. The fair value level for 'Corporate and Government Bonds' has been amended to correctly indicate Level 1, rather than 2.

Section 3.33: Associated Company Interests & Holdings. Page 68 - Audited accounts for North Coventry Holdings Ltd have now been received. No changes are required to the figures, but the description of the 31st March 2016 figures can be updated to 'Audited'.

Section 5.6: Property, Plant & Equipment, Investment Property and Assets Held for Sale. Page 84 - Investment properties have been valued with an approach which is at level 2. This has now been specifically indicated within the accounting policies.

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