Coventry City Council

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To all Members of the Audit and Procurement Committee

21st July 2017
Our ref: C/LMK

Dear Member,

Supplementary Agenda – Meeting of the Audit and Procurement Committee - Monday, 24th July, 2017

The papers for the above meeting were circulated on 14th July 2017. At the time of publication, there were a number of documents which were not available. The document in relation to the item below has now been received and is attached to this letter.

Due to the late circulation of the document, hard copies will be available at the meeting.

- **Agenda Item 7.** **AUDIT FINDINGS REPORT 2016/17** (Pages 3 - 56)
  Report of the External Auditor, Grant Thornton – to follow

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, L Harvard (Deputy Chair), R Singh, H Sweet and K Taylor

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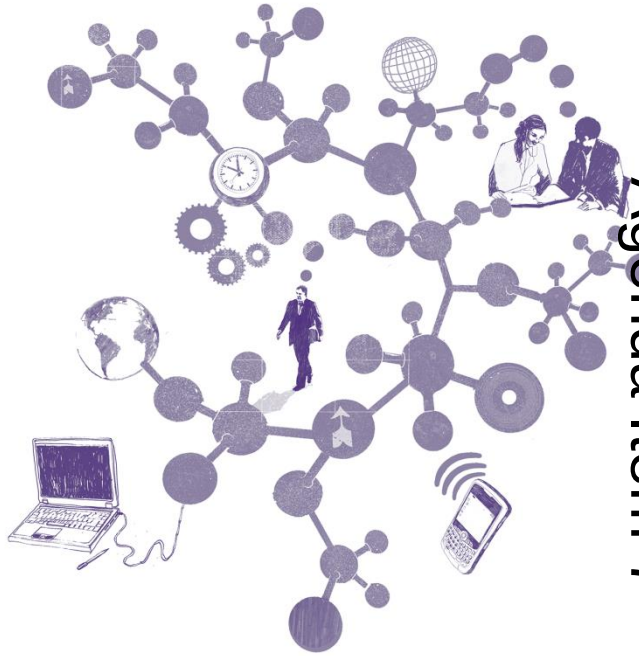
The Audit Findings for Coventry City Council

Year ended 31 March 2017

24 July 2017



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Coventry City Council
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24 July 2017

Dear Members of the Audit and Procurement Committee

Audit Findings for Coventry City Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Coventry City Council, the Audit and Procurement Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

Mark Stocks
Engagement lead

Contents

Section 1: Executive summary

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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

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 year.

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

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 3 April 2017.

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

- testing of leases
- 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
- 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.

Key audit and financial reporting issues

Financial statements opinion

We have identified two adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2017 recorded total comprehensive income and expenditure of £60,942k; the audited financial statements show total comprehensive income and expenditure of £57,746k. These changes have no impact on the Council's General Fund balance. We have also recommended a number of adjustments to improve the presentation of the financial statements.

The Council produced its draft financial statements by the end of May, which enabled the audit to start at the beginning of June as planned. 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.

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

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 if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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.

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

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 2017. We will report the outcome of this certification work through a separate report to the Audit and Procurement Committee at its meeting on 19th February 2018.

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 Director of Finance and Corporate Services.

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 Director of Finance and Corporate Services 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 2017

Section 2: Audit findings

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £13,572k (being 1.8% 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 £13,267k (being 1.8% 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 £663k. 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, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000
Related party transactions	Related party transactions have to be disclosed if they are material to the Council or to the related party	£20,000, however any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements and its materiality for the related party

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	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: • 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.	Our audit work has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have completed the following testing: • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions.	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. We have identified that the Council does not require journals to be authorised prior to processing, which poses a risk to internal control. We have discussed this with management and the consider that there are compensating controls, such as budgetary monitoring, which would retrospectively identify any significant incorrect journals. Management are therefore satisfied that this approach does not introduce substantial risks and is considered appropriate. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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
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.	We have completed the following testing: • 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.	The CIPFA Code of Practice requires local authorities to revalue its investment properties annually. The Council have not complied with this requirement. We have discussed this with the Council's Valuer who has provided additional evidence and correspondence on this matter. In particular, the Valuer has confirmed that they have reviewed the overall value of investment properties and are satisfied that the value of investment properties is not materially misstated. While we consider that there is a risk of misstatement we are satisfied that the risk of a material misstatement is adequately mitigated. We have included this issue in the letter of representation. To ensure that a risk of material misstatement does not arise in future years the Council should ensure that all of its investment properties are revalued annually. The Council values its other land and properties on a 5 year cyclical basis. This is in accordance with the CIPFA Code of Practice. We have reviewed the potential change in the value of schools valued on a depreciated replacement costs basis since their last valuation. We estimate that the value is potentially understated by £7.2m. As this value is not material the Council have not altered the financial statements.

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
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet ,represents a significant estimate in the financial statements.	We have completed the following testing: • 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.	Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.

Audit findings against significant risks continued

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Changes to the presentation of local authority financial statements CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.	Our audit work has not identified any issues in respect of the changes to the presentation of local authority financial statements.

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 are understated	We have undertaken the following work in relation to this risk: • 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	Year end creditors and accruals are understated or not recorded in the correct period.	We have undertaken the following work in relation to this risk: • 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.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.

Significant matters discussed with management

	Significant matter	Commentary
1.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	**Auditor view** We have discussed the Council's approach to revaluing its investment properties with management. The CIPFA Code of Practice requires local authorities to revalue its investment properties annually. The Council have not complied with this requirement. We have discussed this with the Council's Valuer who has provided additional evidence and correspondence on this matter. In particular, the Valuer has confirmed that they have reviewed the overall value of investment properties and are satisfied that the value of investment properties is not materially misstated. While we consider that there is a risk of misstatement we are satisfied that the risk of a material misstatement is adequately mitigated. We have included this issue in the letter of representation. To ensure that a risk of material misstatement does not arise in future years the Council should ensure that all of its investment properties are revalued annually **Management response** The Council's interpretation is that the Code does not require a specific revaluation of each individual investment property. The Council will consider its current valuation process to ensure that it reviews the value of its investment property portfolio on an annual basis to identify any material movements in line with the Code. The Council cannot commit at this stage to undertake a specific revaluation of each property.

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	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.

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of Coventry and Solihull Waste Disposal Company Limited will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Coventry and Solihull Waste Disposal Company Limited's audit documentation and meeting with appropriate members of management.

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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 within the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• 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.	The accounting policy is appropriate and has been adequately disclosed. Testing of a sample of 20 housing benefit payments identified one case where benefit had been overpaid to the claimant. This could potentially lead to a reduction in the housing benefit subsidy that the Council claims from the Department of Work and Pensions (DWP). If the error was replicated across the remaining population the potential error could be approximately £2m. The Council are performing further work on this issue as part of the housing benefit subsidy certification process for 2016/17. This further work will result in the issue being reported to the DWP, who will then determine whether there should be any reduction in housing benefit subsidy for 2016/17. We have considered this issue and have concluded that there is not a risk of housing benefit subsidy being materially overstated for 2016/17.	● Green

Judgements and estimates	• Key estimates and judgements include:
	  • useful life of capital equipment
	  • revaluations
	  • impairments
	  • PPE valuations
	  • valuation of pension fund net liability
	  • accruals.
		There has been appropriate disclosure of key estimates and judgements. We have already reported in respect of the approach to valuing PPE and valuing the pension fund net liability in the section headed 'Audit findings against significant risks'. The assessment is marked as 'Amber' because of the issue reported in respect of the approach to revaluing investment properties. Further detail on this is set out in the section headed 'Significant matters discussed with management'.	● Amber

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 and judgements continued

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Accounting area	Summary of policy	Comments	Assessment
Going concern	The Director of Finance and Corporate Services 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 2016/17 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

● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

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**	• 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 procedures.
2.	**Matters in relation to related parties**	• From the work we carried out, we have identified a number of adjustments required in respect of related party transactions in Note 3.11. These are as follows: - the section headed 'Members' now discloses receipts of £1,304,668, debtor balances of £93,666 and creditor balances of £589,638; these figures had not previously been disclosed - the section headed 'Officers' now discloses receipts of £933,787, debtor balances of £92,700 and creditor balances of £2,443,523; these figures had not previously been disclosed - the value of works and services commissioned from companies that officers had an interest in has been amended from £1,750,214 to £1,180,709.
3.	**Matters in relation to laws and regulations**	• 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**	• A standard letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Procurement Committee papers • Specific representations have been requested from management in respect of the material judgements used in the valuation of investment properties
5.	**Confirmation requests from third parties**	• We obtained direct confirmations from third parties for the Council's material 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 1 of the 5 confirmations sought and, in respect of the confirmations not received, we undertook alternative procedures, including agreement of year end balances to original bank statements held by the schools and to their online banking records. We obtained direct confirmations for most of the Council's material loans. For the 9 loans where external confirmations were not received we undertook alternative procedures, including agreement to original correspondence from the lender.
6.	**Disclosures**	• 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.

Other communication requirements continued

	Issue	Commentary
7.	**Matters on which we report by exception**	We have not identified any issues we would be required to report by exception in the following areas • 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 otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	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. The Council has not yet prepared its WGA consolidation pack, but plans to do so by the end of August. We will perform the specified procedures in September to ensure that the submission deadline of 29 September is met.
9.	**Audit evidence and explanations**	• All information and explanations requested from management were provided
10.	**Significant difficulties**	• We did not encounter any significant difficulties during the audit
11.	**Other matters**	• There are no other matters we need to report to you.

Internal controls

	Assessment	Issue and risk	Recommendations
1.	●	**Lack of information security policies and procedures for Agresso, ResourceLink and Active Directory** Although the Council has a detailed acceptable use policy for end-users, documented policies and procedures have not been formally established addressing information security processes and related control requirements for Agresso, ResourceLink and Active Directory. Management have confirmed that they have started the process of documenting Information Security policy in line with Information Security Standards.	Documented policies and procedures addressing security administration processes and related control requirements (such as user provisioning processes, access review requirements, and restriction of administrative access) within Agresso, ResourceLink and Active Directory should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. Once established, these documents should be periodically, formally reviewed (at least annually) to ensure their continued accuracy and appropriateness.
2.	●	**Proactive reviews of logical access within Agresso, ResourceLink and Active Directory** User accounts and associated permissions for Agresso, ResourceLink and Active Directory are not formally and proactively reviewed for appropriateness.	It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso, ResourceLink and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).
3.	●	**Long period for password expiry** During the audit of the design effectiveness of IT general controls and follow-up review of prior year findings we undertook in April 2017 we identified that the password expiry for AD and Resource Link were set to the value of 100 days. The risk is that someone who finds out the password to an account will continue to have unauthorised access to that account until the password is changed. If passwords are not changed frequently, the period of risk increases.	Password expiry setting should be revised and the parameter be set for all users to be forced to change their passwords frequently (e.g. every 30-60 days). In addition, password history should be enforced so that the system remembers passwords that the user has used in the recent past, so that he/she cannot simply change the password back to the original password.

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

Internal controls

	Assessment	Issue and risk	Recommendations
4.		**Generic accounts with administrative privileges on Resource Link application** During the audit of the design effectiveness of IT general controls and follow-up review of prior year findings we undertook in April 2017 we identified that there are generic accounts with administrative privileges on Resource link application system. Below are the details of the accounts in question: • HRS Default • Supervisor Default We further confirmed the use of these accounts with management and they were not aware of the functionality and they remain active on the application. Generic accounts are well known in the public domain, so they tend to be one of the areas that external hackers will probe first, when attempting access. The use of such IDs also makes individual accountability more difficult, and failure to take precautions against the use of default IDs may leave the organisation exposed to unauthorised access through these accounts.	Management should disable these generic accounts. If there is business need of the accounts, they should be re-named and their activities be logged and the subjected to regular review.

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.
Our audit included consideration of internal control 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.
The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

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

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue	Management response
1.	X	**Inappropriate segregation of duties among IT staff** 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: 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. b) Required maintenance and support requests may not be resolved (or may not be resolved timely) due to competing administrative and operational responsibilities. c) Security administration processes (such as user administration processes) may not function consistently or reliably over time to control access to information assets. d) Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need. e) Systems maintenance process does not function consistently or reliably to ensure quality change management f) Systems lack functionality, controls, and data integrity	Management agreed to perform further investigation into how roles might be segregated further. They have concluded that, due to shrinking team sizes across the organisation, full segregation of duties is not possible. Management is therefore prepared to accept the risk and develop compensating controls. We acknowledge that management are willing to accept the risk. However, this risk acceptance should be formalised by updating the Council's risk register with the accepted risk.	We will explore whether a system of spot checks/system logging could be undertaken and whether Internal Audit could complete a review as part of the scope of its work programme. In the meantime the risk register will be updated.

Assessment
✓ Action completed
X Not yet addressed

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
2.	✓	**Ineffective design of leaver disablement process** 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. This condition poses the following risk to the Council: a) Access to information resources and system functionality may not be restricted on the basis of legitimate business need b) Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls c) Terminated employees may continue to access information assets through enabled, no-longer-needed user accounts d) Revocation of access rights may not be performed accurately, comprehensively, or on a timely basis	Management has taken the following actions to address this issue: • leavers are processed by the service desk on a daily (rather than weekly) basis. All leave requests are logged via the SCSM Service Desk call reporting system • staff are reminded not to action a user creation, change or deletion request without ensuring that a related SCSM ticket exists • all requests for new AD accounts for non-payroll employees have been 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 have been audited and all without an expiry date have had one added • all non-payroll accounts with expiry dates were reviewed and expiry dates altered where they were not expiring within the next six months.

Assessment
✓ Action completed
X Not yet addressed

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue	Management response
3.	X	**Security administration rights granted to those performing financial reporting processes or controls** 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. This condition poses the following risks to the Council: 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. b) Required maintenance and support requests may not be resolved (or may not be resolved timely) due to competing administrative and operational responsibilities. c) Security administration processes (such as user administration processes) may not function consistently or reliably over time to control access to information assets. d) Internal access to information assets and administrative functionality may not be restricted on the basis of legitimate business need.	Management have considered this issue further and have concluded that they are prepared to accept the risk and develop compensating controls. We acknowledge that management are willing to accept the risk. However, this risk acceptance should be formalised by updating the Council's risk register with the accepted risk. Compensating controls should also be developed and implemented.	Management accepts the need to introduce additional system logging and management review to enhance the controls in this area. We will consider the best way of implementing the recommended controls and will also consider whether to involve Internal Audit in a review as part of the scope of its work programme. In the meantime the risk register will be updated.

Assessment
✓ Action completed
X Not yet addressed

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on General Fund balance £000
1	The value of the Council's investment in Birmingham Airport Holdings Ltd (BAHL) has increased from £22,913k to £29,776. This has arisen as a result of the Council obtaining a revised valuation of its investment in BAHL. This revised valuation was not available to the Council's officers at the time that the draft financial statements were prepared.	6,863	6,863	0
2	The Council's valuer revalued several of the Council's operational and non-operational assets in 2016/17. Most of the revised valuations were included in the Council's asset register and, hence, in the financial statements. However, a small number of revaluations were not recorded in the Council's asset register and financial statements.	(3,667)	(3,667)	0
	Overall impact	**3,196**	**3,196**	**0**

Misclassification 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	Various	Comprehensive Income and Expenditure Statement (CIES)	The CIES previously disclosed the 'Net (Surplus)/Deficit from Trading Operations'. The Council have re-considered the treatment of this item and, with the exception of Commercial Property, have now included these trading operations within 'Cost of Services', rather than within 'Finance and Investment Income and Expenditure'. Income and expenditure in respect of Commercial Property is now disclosed separately within 'Finance and Investment Income and Expenditure'. As a consequence of this adjustment, Note 3.6 'Trading Account Summary' has been removed from the financial statements as it is no longer needed.
2	Misclassification	2,677	Balance Sheet	Testing identified that the Short Term Creditors balance included £2,677k in respect of receipts in advance for s106 schemes which are not due to be used within 12 months. These have been re-classified as long term liabilities.
3	Disclosure	Various	Note 3.1 – Expenditure and Funding Analysis	Some of the 2015/16 figures disclosed in this note have been adjusted as they were not analysed from the ledger correctly. These adjustments are detailed in Appendix C. These adjustments have no impact on the total deficit reported of £7,402k.
4	Disclosure	Various	Note 3.2 – Note to the Expenditure and Funding Analysis	Some of the 2015/16 figures disclosed in this note have been adjusted as they were not analysed from the ledger correctly. These adjustments are detailed in Appendix C. These adjustments have no impact on the total adjustments reported of £6,172k.
5	Disclosure	Various	Note 3.3 – Revenue Outturn	Some of the 2015/16 figures disclosed in this note have been adjusted as they were not analysed from the ledger correctly. These adjustments are detailed in Appendix C. These adjustments have no impact on the total overspend reported of £1,337k.
6	Disclosure	Various	Note 3.14 – Property, Plant and Equipment	This note has been expanded to fully disclose prior year comparative figures.

Misclassification 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
7	Disclosure	Various	Note 3.16 – Non-Operational Assets	This note has been expanded to disclose further information on the nature of the investment properties held by the Council.
8	Disclosure	10,300	Note 3.29 – Pension Costs	Additional disclosure has been added in respect of expected pension contributions for the Teachers Pension scheme in 2017/18
9	Misclassification	4,925	Group Comprehensive Income and Expenditure Statement (GCIES)	The draft accounts disclosed the turnover and cost of sales of the joint venture within Cost of Services. The GCIES has been amended so that these transactions are disclosed within the 'Associates and JV's accounted for on an Equity Basis' line within 'Group Surplus or Deficit'. This adjustment has no impact on Total Comprehensive Income and Expenditure

Section 3: Value for Money

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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body takes properly informed decisions and deploys 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 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 3 April 2017.

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 working with the West Midlands Combined Authority to deliver its 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 overleaf.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix B.

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.

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
Medium term financial planning The Council will need to work hard to balance its finances over the medium term as funding from central government continues to fall. The Council is currently forecasting a balanced budget for the period 2017/18 to 2019/20.	We assessed whether the Council is: • 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 • taking action to manage social care expenditure.	We found that the Council has: • set a balanced budget for 2017/18 and is forecasting a balanced budget for 2018/19 and 2019/20 • a strong track record of delivering planned savings • plans to maintain a reasonable level of reserves in the medium term • provided in-year budget monitoring reports to Cabinet on a timely basis that paint a comprehensive picture of the Council's finances On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for: • planning finances effectively to support its strategic functions • making informed decisions.
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 and a re-inspection by Ofsted was carried out in March 2017.	We updated our understanding of the Council's arrangements following the result of the latest Ofsted inspection and considered their adequacy.	The latest inspection by Ofsted concluded that services for children in Coventry are no longer inadequate and, overall, have been rated as 'requires improvement to be good'. Within this overall assessment experiences and progress of care leavers were rated as good. On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for ensuring high quality and effective children's social care services.

Significant risk	Work to address	Findings and conclusions
West Midlands Combined Authority The Council must work effectively with the West Midlands Combined Authority (WMCA) if it is to deliver its strategic priorities, particularly in respect of city centre regeneration. One outcome of the Devolution Deal is that it gives the Council the opportunity to participate in the Business Rates Retention Pilot Scheme.	We assessed whether the Council has adequate arrangements in place to work with the WMCA to deliver strategic priorities, such as through the Business Rates Retention pilot.	We found that the Council has: • adequately assessed the risks arising from the creation of WMCA and has put arrangements in place to mitigate and manage those risks • taken advantage of the opportunities offered by the Devolution Deal by participating in the business rates retention pilot • obtained WMCA funding for the Friargate and City Centre South initiatives • seconded key officers to WMCA, thus ensuring that Coventry's voice is heard within the highest levels of that body. Whilst we are satisfied that that finance risks are being adequately identified and considered, Members should be aware that funding for a number of the schemes in WMCA's Investment Plan are not certain. In particular, • the £36.5 million annual revenue funding from the Devolution Deal is subject to a jointly agreed 5-yearly gateway assessment process to confirm the investment has contributed to economic growth • a significant proportion of WMCA's planned borrowing is supported by Mayoral revenue streams. Decisions will need to made, therefore, on whether a £10 Band D Council tax precept and a 2% Business Rate levy will be introduced. 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.

Section 4: Other statutory powers and duties

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**	• We have not identified any matters that would require a public interest report to be issued
2.	**Written recommendations**	• 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**	• We have not used this duty
4.	**Issue of an advisory notice**	• We have not used this duty
5.	**Application for judicial review**	• We have not used this duty

Section 5: Fees, non-audit services and independence

Independence and ethics

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. The firm, its partners, senior managers and managers have complied with the Financial Reporting Council's Ethical Standard and the Auditing Practices Board Ethical Standards as applicable and 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 requirement of the Financial Reporting Council's Ethical Standard
- We have received confirmation that Ernst & Young LLP is independent as external auditor of Coventry and Solihull Waste Disposal Company
- We have received confirmation that BDO LLP is independent as the valuer of the Council's investments in Birmingham Airport Holdings Limited and Coventry and Solihull Waste Disposal Company
- We have received confirmation that Barnett Waddingham LLP is independent as the provider of the assessment of the value of the Council's share of the assets and liabilities of the West Midlands Pension Fund
- We have received confirmation that Arlingclose Ltd is independent as the provider of fair values for the Council's financial instruments.

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

Fees

	Proposed fee £	Final fee £
Council audit	173,460	173,460
Grant certification*	15,698	15,698
Total audit fees (excluding VAT)	**189,158**	**189,158**

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. This work is not due to be completed until the end of November 2017. Therefore, we are unable to confirm the final fee at this time. Any variation to the fee would be subject to approval by PSAA. 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 2016/17 Teachers Pension Return	4,200
Non-audit services • CFO Insights (Full cost for 3-year subscription is £30,000. Annual charge is £10,000) • Opportunity West Midlands Training Programme	10,000 15,000

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
CFO Insights (this is an online software service offering that enables users to rapidly analyse, segment and visualise all key data relating to the financial performance of a local authority)	Coventry City Council	£10,000	• The fee is a recurring subscription and, therefore, there is a self-interest threat. The tool provides information that will help inform decision making by informed management. The scope of our service does not include making decisions on behalf of management or recommending a particular course of action.	The fee is negligible in comparison to the audit fee and, in particular, to Grant Thornton's turnover. It is also a fixed fee with no contingent element. These factors mitigate the perceived self-interest threat to an acceptable level.
Opportunity West Midlands Training Programme	Coventry City Council	£15,000	• None identified	n/a
Certification of 2016/17 Teachers Pension Return	Coventry City Council	£4,200	• This is a recurring fee and, therefore, there is a self-interest threat	The fee is negligible in comparison to the audit fee and, in particular, to Grant Thornton's turnover. It is also a fixed fee with no contingent element. These factors mitigate the perceived self-interest threat to an acceptable level.
	TOTAL	£29,200		

- The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit Committee.
- None of the above services were provided on a contingent fee basis
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to Coventry City Council. The table on the previous page summarises all non-audit services which were identified.
- The fees reconcile to the financial statements.

Section 6: Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.psaa.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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
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

A. Action Plan

B. Audit Opinion

C. Misclassification and Disclosure Changes

A Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1.	The Council should ensure that all of its investment properties are revalued annually		The Council's interpretation is that the Code does not require a specific revaluation of each individual investment property. The Council will consider its current valuation process to ensure that it reviews the value of its investment property portfolio on an annual basis to identify any material movements in line with the Code. The Council cannot commit at this stage to undertake a specific revaluation of each property.	To be confirmed.
2.	Documented policies and procedures addressing security administration processes and related control requirements (such as user provisioning processes, access review requirements, and restriction of administrative access) within Agresso, ResourceLink and Active Directory should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. Once established, these documents should be periodically, formally reviewed (at least annually) to ensure their continued accuracy and appropriateness.		ICT are convening a working party to look at the user life cycle for user access focusing primarily on Active Directory however, the process may be applied to line of business systems also. In addition, ICT Services are also establishing a 'Logical Access Review process' for line of business systems. This will be applied to systems where ICT has responsibility for user rights and shared with business areas where these responsibilities sit outside of ICT While there are a number of documents in place around user set ups within Finance, these need to be consolidated into one document and signed off by the appropriate people..	ICT & Digital – to be implemented by 31 December 2017. Logical Access Review process to be in place by 31 Janaury 2018. Head of ICT and Digital Finance – to be implemented by 31 December 2017 Finance Manager Corporate Finance

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan (continued)

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
3.	It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso, ResourceLink and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).		As point 1, the working party will conduct a review and establish a process for the review of access across AD accounts. In addition a further work stream will focus on High privilege access where we are looking to implement a tier model with the premise of least access by default.. Logical access reviews of applications have taken place for ResourceLink users and process are being developed for other systems. While there is an element of checking done by budget holders for financial approvers for a cost centre within Agresso it is not possible for self serve reports to be created to show other access. A total user access review will be completed by 31 March 2018. Once processes are in place to complete this type of review this will be completed annually.	High Privilege access review by 31 March 2018. Logical Access review process – ICT Systems Management Team – 31 January 2018. Head of ICT and Digital Finance/Agresso total user access review to be completed by 31 March 2018 Finance Manager Corporate Finance

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A Action plan (continued)

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
4.	Password expiry setting should be revised and the parameter be set for all users to be forced to change their passwords frequently (e.g. every 30-60 days). In addition, password history should be enforced so that the system remembers passwords that the user has used in the recent past, so that he/she cannot simply change the password back to the original password.		Password expiry time is currently set to 30 days for ResourceLink, and 90 days for Active Directory. Agresso uses Active Directory accounts. In addition, we have implemented 24 past password history into active directory meaning that the users past 24 passwords cannot be reused. In order to address the concern around password change frequency on AD passwords management are also commissioning an internal review of our ICT Password Policy to align this with ICT industry best practice.	ICT Services – 31 December 2017 Head of ICT and Digital
5.	Management should disable generic accounts. If there is business need of the accounts, they should be re-named and their activities be logged and then subjected to regular review.		Agree, during the audit only generic accounts in ResourceLink were identified, these have now been disabled.	n/a
6.	Management have decided to accept a level of inappropriate segregation of duties among IT staff. The Council's risk register should be updated to document the accepted risk.		We will explore whether a system of spot checks/system logging could be undertaken and whether Internal Audit could complete a review as part of the scope of its work programme. In the meantime the risk register will be updated.	To be in place by 31 December 2017 Head of ICT and Digital

Controls
- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

A. Action plan (continued)

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
7.	Management have decided to accept a level of risk in respect of security administration rights being granted to those performing financial reporting processes or controls. The Council's risk register should be updated to document the accepted risk and compensating controls developed and implemented.		Management accepts the need to introduce additional system logging and management review to enhance the controls in this area. We will consider the best way of implementing the recommended controls and will also consider whether to involve Internal Audit in a review as part of the scope of its work programme. In the meantime the risk register will be updated.	To be in place by 31 October 2017 Finance Manager Corporate Finance

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the related notes and 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 2016/17.

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 Authority's 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 Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance and Corporate Services 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Corporate Services; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report, Overview of Main Financial Statements, 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 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
• the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, Overview of Main Financial Statements, the Overview of Group Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the 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: Framework (2016)' published by CIPFA and SOLACE; or
• we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
• we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
• we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its 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 issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that 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 2017.

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 has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of 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 2016, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice 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 2017. 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 economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Mark Stocks
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
The Colmore Building
20 Colmore Circus
Birmingham
West Midlands
B4 6AT

Date

C Misclassification and Disclosure Changes

Note 3.1 Expenditure and Funding Analysis

Directorate Analysis	Net Expenditure Chargeable to the General Fund (2015/16) (Unaudited draft accounts) (£'000)	Adjustments between the Funding and Accounting Basis (2015/16) (Unaudited draft accounts) £'000)	Net Expenditure in the Comprehensive Income and Expenditure Statement (2015/16) (Unaudited draft accounts) (£'000)	Net Expenditure Chargeable to the General Fund (2015/16) (Amended financial statements) (£'000)	Adjustments between the Funding and Accounting Basis (2015/16) (Amended draft accounts) (£'000)	Net Expenditure in the Comprehensive Income and Expenditure Statement (2015/16) (Amended draft accounts) (£'000)
People Directorate	156,902	17,141	174,043	**165,758**	**8,940**	**174,698**
Place Directorate	34,569	82,440	117,009	**35,823**	**81,341**	**117,164**
Resources Directorate	11,865	1,260	13,125	**11,077**	**2,061**	**13,138**
Chief Executive's Directorate	1,400	0	1,400	**1,364**	0	**1,364**
Contingency & Central Budgets	(53)	(21,613)	(21,666)	**3,460**	**(25,126)**	(21,666)
Net Cost of Services	204,683	79,228	283,911	**217,482**	**67,216**	**284,698**
Other Income and Expenditure	(203,453)	(73,056)	(276,509)	**(216,252)**	**(61,044)**	**(277,296)**
Surplus or Deficit	1,230	6,172	7,402	1,230	6,172	7,402

Note – the figures that have been amended from the unaudited draft accounts are those highlighted in **bold**

C. Misclassification and Disclosure Changes

Note 3.2 Note to the Expenditure and Funding Analysis

Directorate Analysis	Adjustment for Capital Purposes (2015/16) (Unaudited draft accounts) (£'000)	Net Changes for the Pension Adjustment (2015/16) (Unaudited draft accounts) £'000)	Other Differences (2015/16) (Unaudited draft accounts) £'000)	Total Adjustments (2015/16) (Unaudited draft accounts) (£'000)	Adjustment for Capital Purposes (2015/16) (Adjusted draft accounts) (£'000)	Net Changes for the Pension Adjustment (2015/16) (Adjusted draft accounts) £'000)	Other Differences (2015/16) (Adjusted draft accounts) £'000)	Total Adjustments (2015/16) (Adjusted draft accounts) (£'000)
People Directorate	17,141	0	0	17,141	**8,940**	0	0	**8,940**
Place Directorate	82,440	0	0	82,440	**81,341**	0	0	**81,341**
Resources Directorate	1,260	0	0	1,260	**2,061**	0	0	**2,061**
Chief Executive's Directorate	0	0	0	0	0	0	0	0
Contingency & Central Budgets	(25,750)	6,391	(2,254)	(21,613)	**(29,263)**	6,391	(2,254)	**(25,126)**
Net Cost of Services	75,091	6,391	(2,254)	79,228	**63,079**	6,391	(2,254)	**67,216**
Other Income and Expenditure	(70,154)	0	(2,902)	(73,056)	**(58,142)**	0	(2,902)	**(61,044)**
Surplus or Deficit	4,937	6,391	(5,156)	6,172	4,937	6,391	(5,156)	6,172

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Note – the figures that have been amended from the unaudited draft accounts are those highlighted in **bold**

C. Misclassification and Disclosure Changes

Note 3.3 Revenue Outturn

Directorate Analysis	Net Expenditure Chargeable to the General Fund (2015/16) (Unaudited draft accounts) (£'000)	Adjustment for elements within the Provision of Service that are not included in the Cost of Services (2015/16) (Unaudited draft accounts) £'000)	Net Expenditure Chargeable to the General Fund (2015/16) (Amended financial statements) (£'000)	Adjustments for the elements within the Provision of Service that are not included in the Cost of Services (2015/16) (Amended draft accounts) (£'000)
People Directorate	156,902	10,915	**165,758**	**2,059**
Place Directorate	34,569	(4,373)	**35,823**	**(5,627)**
Resources Directorate	11,865	(407)	**11,077**	**381**
Chief Executive's Directorate	1,400	190	1,364	**226**
Contingency & Central Budgets	(53)	28,579	**3,460**	**25,066**
Net Cost of Services	204,683	34,904	**217,482**	**22,105**
Other Income and Expenditure	(203,453)	(34,904)	**(216,252)**	**(22,105)**
Surplus or Deficit	1,230	0	1,230	0

Note – the figures that have been amended from the unaudited draft accounts are those highlighted in **bold**

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