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Coventry City Council

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To all Members of the Audit and Procurement Committee

30th August 2019

Our ref: C/LMK

Dear Member,

Supplementary Agenda – Meeting of the Audit and Procurement Committee - Monday, 2nd September, 2019

The papers for the above meeting were circulated on 22nd August 2019. At the time of publication, there were a number of documents which were not available. The final document in relation to the item below has now been received and is attached to this letter.

- **Agenda Item 6. AUDIT FINDINGS REPORT 2018-2019 (GRANT THORNTON)** (Pages 3 - 12)

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 M Ali, S Bains (Deputy Chair), J Blundell, R Lakha (Chair), T Sawdon, R Singh and H Sweet



INVESTOR IN PEOPLE

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Independent auditor's report to the members of Coventry City Council

Report on the Audit of the Financial Statements

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Coventry City Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income & Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Account, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement and notes to the financial statements, including a Statement of Accounting Policies. The notes to the financial statements include the notes to the main financial statements on pages 36 to 103, notes to the collection fund statement on pages 105 to 106, notes to the group accounts on pages 107 and 113 to 116 and Statement of Accounting Policies on pages 117 to 132. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Corporate Service has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



- Overall materiality: £14,000,000, which represents approximately 1.8% of the group's gross expenditure
- Key audit matters were identified as:
 - Valuation of property, plant and equipment (other land and buildings); and
 - Valuation of the defined benefit net pension liability.

The group comprises six components, of which Coventry City Council is the only individually financially significant component on which a full scope audit was performed. We performed audit procedures on material balances and transactions of Coventry and Solihull Waste Disposal Company and analytical procedures on the other non-significant components of the group.

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

- We identified two significant risks in respect of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources in relation to medium term financial sustainability and the capital programme (see Report on other legal and regulatory requirements section).

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters – Authority

How the matter was addressed in the audit

Risk 1 - Valuation of property, plant and equipment (other land and buildings)

The Authority revalues its land and buildings at least once every five years. Valuation of property, plant and equipment represents a significant estimate by management in the financial statements (net book value of other land and buildings of £441.3 million as at 31 March 2019).

We identified the valuation of property, plant and equipment (other land and buildings) as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to the Authority's valuation expert and the scope of their work;
- evaluating the competence, capabilities and objectivity of the valuation expert;
- writing to the valuer to confirm the basis on which the valuations were carried out;
- challenging the information and assumptions used by the Authority's valuation expert to assess completeness and consistency with our understanding;
- testing, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register; and
- evaluating the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.

The Authority's accounting policy on valuation of property, plant and equipment is shown in note 5.7 to the financial statements and related disclosures are included in notes 3.15 and 3.19.

Key observations

The Authority had omitted to undertake revaluations of its schools fully in accordance with CIPFA Code requirements. Consequently, during the audit the Authority obtained an updated valuation of schools from their valuer but decided not to amend the financial statements for the £1 million reduction in the value of school assets on the grounds of materiality.

Subject to our observations above, we obtained sufficient audit evidence to conclude:

- the basis of the valuation of other land and buildings was appropriate, and the assumptions and processes used by management in determining the estimate were reasonable; and
- the valuation of the other land and buildings disclosed in the financial statements is reasonable.

Risk 2 - Valuation of the defined benefit net pension liability

The Authority's defined benefit net pension liability represents a significant estimate in the financial statements.

The net pension liability is considered a significant estimate due to the size of the liability involved (£524.2 million as at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.

A recent legal ruling around age discrimination (McCloud - Court of Appeal) has implications for the local government pension scheme resulting in a potential increase in pension fund liabilities. The Authority asked its actuary to estimate the value of this ruling on its pension liability.

We therefore identified valuation of the defined benefit net pension liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- updating our understanding of the processes and controls put in place by management to ensure that the Authority's net pension liability is not materially misstated and evaluating the design of the associated controls;
- evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessing the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation;
- assessing the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;
- testing the consistency of the pension fund asset and liability and disclosures in the notes to the main financial statements with the actuarial report from the actuary;
- undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;
- obtaining assurances from the auditor of the West Midlands Pension Fund relating to the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund asset valuation in the pension fund financial statements; and
- assessing the updated actuary's report in relation to potential adjustments as a result of McCloud and using our own internal and external auditor experts

Key Audit Matters – Authority

How the matter was addressed in the audit

to assess the reasonableness and validity of the assumptions used. .

The Authority's accounting policy on valuation of the defined benefit net pension liability is shown in note 5.7 to the financial statements and related disclosures are included in notes 3.30 and 3.31.

Key observations

The Authority obtained updated valuations from their actuary in relation to the McCloud judgement, which have increased the Authority's past service cost and net pension liability by £11.8 million. The Authority adjusted the net pension liability figure in the balance sheet and the group balance sheet in the financial statements on audit to reflect this updated valuation.

Subject to the above adjustment, we obtained sufficient audit assurance to conclude that:

- the basis of the valuations was appropriate, and the assumptions and processes used by management in determining the estimates were reasonable;
- the valuation of the net pension liability recognised in the financial statements is reasonable.

Our application of materiality

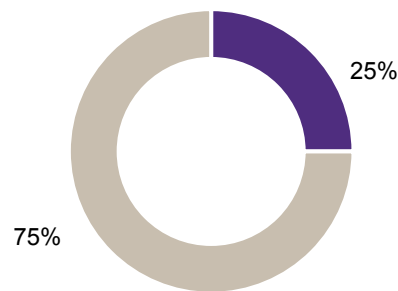
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

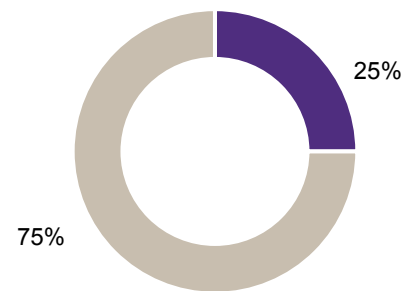
Materiality Measure	Group	Authority
Financial statements as a whole	£14,000,000 which is 1.8% of the group's gross expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the group has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross expenditure as we determined for the year ended 31 March 2018 as we did not identify any significant changes in the group or the environment in which it operates.	£13,800,000 which is 1.8% of the Authority's gross expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how the Authority has expended its revenue and other funding. Materiality for the current year is at the same percentage level of gross expenditure as we determined for the year ended 31 March 2018 as we did not identify any significant changes in the Authority or the environment in which it operates.
Performance materiality used to drive the extent of our testing	75% of financial statement materiality	75% of financial statement materiality
Specific materiality	.	We determined a lower level of specific materiality for certain areas such as senior officer remuneration disclosures due to the public interest in these disclosures and the statutory requirement for these to be made.
Communication of misstatements to the Audit and Procurement Committee	£690,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£690,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Group



Overall materiality – Authority



An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, is risk based, and in particular included:

- Gaining an understanding of and evaluating the Authority's internal controls environment including its financial and IT systems and controls;
- Evaluation of identified components to assess the significance of each component and to determine the planned audit response based on a measure of materiality and significance of the component as a percentage of the group's total income, assets and liabilities. A full scope, targeted or analytical approach was taken for each component based on their relative materiality to the group and our assessment of audit risk;
- Full scope audit procedures on Coventry City Council, the only financially significant component in the group. The Authority's transactions represent 94% of the group's income and 95% of its total assets;
- Audit procedures on income and the property, plant and equipment balances of Coventry and Solihull Waste Disposal Company Ltd. This is a non-significant component in the group accounts; and represents 4% of the group's income and 3% of its total assets.
- Performing analytical procedures on the other non-significant components in the group accounts: Coventry North Regeneration Limited, North Coventry Holdings Limited, Coombe Abbey Park Limited and Friargate JV Project Ltd. These entities in total represent 2% of the group's income, and 2% of its total assets.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of fraud, including irregularities and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Authority and the group and sectors in which they operate. We determined that the following laws and regulations were most significant:
 - the Accounts and Audit Regulations 2015
 - the Local Government Act 2003
 - the Local Government Finance Act 2012
 - the Prudential Code for Capital Finance in Local Authorities.

- We understood how the Authority and the group is complying with those legal and regulatory frameworks by making inquiries to the monitoring officer, internal auditors, and those responsible for legal and compliance procedures. We corroborated our inquiries through our review of minutes and papers provided to the Cabinet, Audit and Procurement Committee. Through our communications with management and attendance at the Audit and Procurement Committee we have assessed the procedures in place in relation to the prevention and detection of fraud;
- We assessed the susceptibility of the Authority's and group's financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the group engagement team included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;
 - understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - challenging assumptions and judgments made by management in its significant accounting estimates;
 - identifying and testing journal entries, in particular any journal entries posted with unusual account combinations;
- We did not identify any key audit matters relating to irregularities, including fraud.

Other information

The Director of Finance and Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Director of Finance and Corporate Services and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Corporate Services. 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance and Corporate Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Corporate Services is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Procurement Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by Public Sector Audit Appointments Ltd in December 2017 to audit the financial statements for the year ending 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is one year.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Authority or its subsidiaries and we remain independent of the Authority and the group in conducting our audit.

We have provided the following services in addition to the audit, to the Authority and its subsidiaries since 1 April 2018 that have not been disclosed separately in the Statement of Accounts:

- agreed-upon procedures in relation to the Housing Benefit Subsidy Claim and the Teachers' Pension return for the year ended 31 March 2019
- annual subscription to the CFO Insights service provided by Grant Thornton.

Our audit opinion is consistent with the additional report to the Audit and Procurement Committee.

Report on other legal and regulatory requirements – Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Significant risks

Under the Code of Audit Practice, we are required to report on how our work addressed the significant risks we identified in forming our conclusion on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. Significant risks are those risks that in our view had the potential to cause us to reach an inappropriate conclusion on the audited body's arrangements. The table below sets out the significant risks we have identified. These significant risks were addressed in the context of our conclusion on the Authority's arrangements as a whole, and in forming our conclusion thereon, and we do not provide a separate opinion on these risks.

Significant risks	How the matter was addressed in the audit
Risk 1 - Medium Term Financial Sustainability The Authority is currently forecasting a balanced budget to 2019/20, but faces difficulties in balancing its finances from 2020/21 onwards and acknowledges that the uncertainty of Local Government funding from 2020/21 could impact on its aim to deliver a balanced position.	Our audit work included, but was not restricted to: <ul style="list-style-type: none">• assessing the Authority's processes for planning its finances; and• assessing the adequacy of actions being taken to effectively manage particularly constrained elements of its budgeted expenditure, especially that relating to social care and temporary housing.

Key findings

- The Authority achieved its planned outturn for the year ending 31 March 2019 delivering an underspend of £1 million.
- The Authority's current medium-term financial plan shows that the Authority has set a balanced budget for 2019/2020, which requires delivery of £11 million of savings. The Authority's reserves increased by £9 million to £71 million in 2018/19. These reserves could be used to support revenue spending if savings are not fully delivered in the medium term. The Authority is

Significant risks

How the matter was addressed in the audit

proactively working on ways to deliver savings across services lines and income generation to reduce its current revenue budget gaps.

Risk 2 - Capital Programme

The Authority's 2018/19 capital outturn position was estimated at £222 million in January 2019 compared with the original estimate reported to Cabinet in February 2018 of £262 million. The actual capital payments made by the end of September 2018 were £34 million.

There is risk that the capital expenditure planned for 2018/19 will not be achieved and that this will have revenue implications for the authority which could affect the delivery of its budget.

Our audit work included, but was not restricted to:

- monitoring the Authority's performance against its 2018/19 capital programme; and
- assessing whether any delays or slippages in delivery have a significant impact on the Authority's capital strategy and objectives or 2018/19 revenue expenditure.

Key findings

The Authority reduced its capital programme during 2018/19 due to delays in project implementation and the revised budget of £175.9 million was reported to the Audit and Procurement Committee in February 2019..

As a result of this planned underspend some capital projects have been deferred into 2019/20, but this did not lead to any significant changes in the Authority's capital strategy or aborted projects or any significant unplanned revenue expenditure.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects, 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 criterion 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 2019.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - 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 Local Audit and Accountability Act 2014 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 2019. 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 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

[Signature**]**

Mark C Stocks, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Birmingham

Date: 2 September 2019