



The Annual Audit Letter for Coventry City Council

Year ended 31 March 2013

26 September 2013

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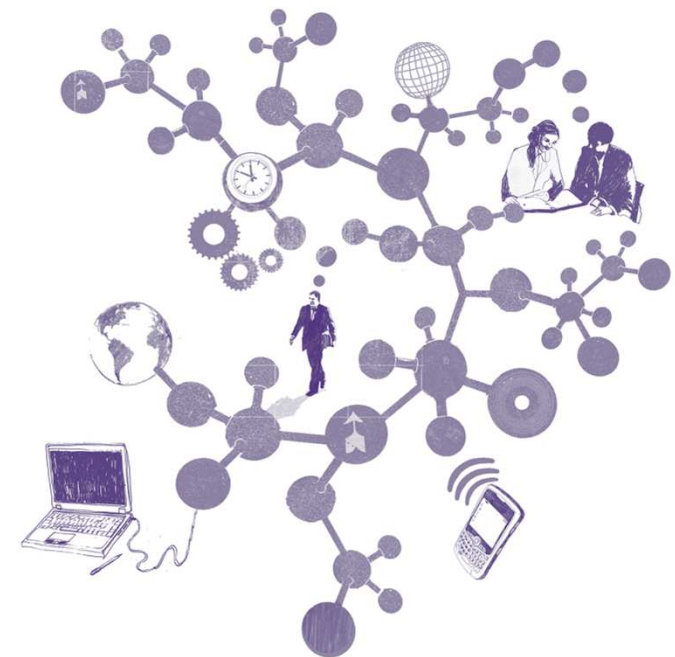
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Section 1: Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Coventry City Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section two)
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section three)
- certification of grant claims and returns (Section four).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to the Audit and Procurement Committee, as 'those charged with governance' in the Audit Findings Report on 23 September 2013.

Responsibilities of the external auditors and the Council

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

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 10 April 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the accounts which give a true and fair view of the Council's financial position as at 31 March 2013 and its income and expenditure for the year
- an unqualified conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Our work on the Council's Whole of Government Accounts submission is still in progress.

We have not yet been able to formally certify completion of the audit because of an outstanding objection to the accounts. We are satisfied that the outcome of the objection will not be material to the accounts, and will issue our certificate of completion once the objection has been determined.

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

Medium Term Financial Position

The Council's overall financial position is, like those of most councils, very challenging. The 2013/14 budget confirmed a need for new savings of £44m over the period covered by the Medium Term Financial Plan (to March 2016). Since then, figures released by CLG in July 2013 have indicated that substantial further savings will be needed. We are satisfied that the Council is taking sensible action to safeguard its financial future and the essential services which it provides, but significant risks and uncertainties remain and it is vital that the Council continues to :

- Maintain tight financial control
- Keep the MTFP up-to-date and plan for a range of scenarios
- Effectively manage the ABC transformation programme and ensure that identified savings are delivered.

While the council's processes in the above areas have been very effective to date, the increased scale of the challenges being faced will require a 'step change' in the Council's processes for identifying savings, and members will need to be prepared to take some difficult decisions.

Children, Learning and Young People

One area of concern is the delivery of the service changes and resulting financial savings recommended in the fundamental service review in the Children, Learning and Young People Directorate. These savings targets have had to be recast because there have been delays in improving early intervention processes and problems in building fostering capacity. While some good progress has been made, the Council needs to maintain pressure and ensure that the savings built into its overall plans are achievable. The context for the changes has also been affected by a recent serious case review involving the Directorate. This will clearly have a significant impact on management time and resources and is likely to impact on the directorate's aim of reducing the number of looked after children.

Replacement Financial Information System

The Council is replacing the financial information system in 2013/14. The new financial information system will replace the general ledger, accounts payable and accounts receivable, and will provide additional capabilities and functionality. The Council's Project partner, Unit 4, has shared its knowledge and experience in helping other councils implement new financial information systems. The Council has also held discussions with other councils to learn any lessons from their experience of implementing Agresso. Internal Audit have been heavily involved in the project and have a key role to play in ensuring that controls are adequately designed and operating effectively.

Arena Coventry Limited

The Council has a 50% stake in Arena Coventry Limited (ACL), which operates the Ricoh Arena. During 2012/13, the Council provided a £14.4m loan to ACL to enable it to refinance its borrowings. ACL is in dispute with Coventry City Football Club over unpaid rent, while the owners of the latter sought to institute Judicial Review proceedings with regard to the terms of the loan to Arena Coventry Limited. As a result of the disputes, the football club has relocated to Northampton, but ACL is confident that it can continue as a sound business without the club.

Managing these issues raised some complex issues in areas such as conflicts of interest, the Executive Director, Resources' statutory responsibilities and managing confidentiality, and these issues were all handled effectively. Going forward, the Council needs to continue to satisfy itself on the financial status of ACL and to ensure that strong governance arrangements remain in place around this issue.

Acknowledgements

This Letter has been agreed with the Executive Director, Resources and was presented to Audit & Procurement Committee on 7 October 2013.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
September 2013

Section 2: *Audit of the accounts*

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Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

The Council presented us with draft accounts on 1 July 2013, in accordance with the agreed timetable. Appropriate working papers were made available from the start of the audit fieldwork, which commenced on 1 July 2013.

The draft accounts were of good quality and an improvement on previous years. There has been a significant reduction in the number of audit adjustments required.

Issues arising from the audit of the accounts

We identified one adjustment affecting the Council's reported financial position. The draft financial statements recorded net expenditure of £347,719k; the audited financial statements show net expenditure of £348,795k. This change related to the omission of a creditor following the transfer of Caludon Castle School to academy status. We also identified a number of adjustments to improve the presentation of the financial statements.

There were no unadjusted misstatements. All adjustments identified during the audit have been made within the final set of financial statements. The audit did not identify any material misstatements.

Annual governance statement

We have reviewed your Annual Governance Statement and we have no matters that we need to report.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance' (defined as the Audit & Procurement Committee at the Council). We presented our report to the Audit & Procurement Committee on 23 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 accounts on 24 September 2013, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Section 3: Value for Money

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Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

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

We are required to give a VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:

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

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

Key findings

Securing financial resilience

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

- financial governance
- financial planning
- financial control.

Our work highlighted that the Council has strong arrangements for securing financial resilience. Its overall financial position, like that of most councils, is very challenging, with the 2013/14 budget confirming a need for new savings of £44m over the period covered by the Medium Term Financial Plan (to March 2016). The recently announced future local government resource allocation figures indicates a worsening position. Officers are working to address the challenge posed by these cuts in funding.

The Council's arrangements mean that it is well placed to address this challenge, with a good record of overall budgetary control and achievement of savings – although there are issues specifically in relation to the Children Learning and Young People directorate (see below). The scale of the challenge now being faced, however, means that members will be faced with some very difficult decisions in coming years. It is vital that members are prepared to take these decisions and that the existing arrangements for financial planning, budgetary control and monitoring achievement of savings continue to be effective.

The Council's previous auditors (the Audit Commission) have commented in previous years on the low level of the Council's General Fund reserve. While the level of the reserve has increased by 50% in 2012/13, it remains low. This further reinforces the continuing need for strong budgetary control and monitoring of savings performance.

Value for Money

The Council's strong approach to financial governance has been demonstrated during the year through its approach to the dispute between Coventry City Football Club and Arena Coventry Limited, which is 50% owned by the Council. Managing this issue raised some complex issues in areas such as conflicts of interest, the Executive Director, Resources' statutory responsibilities and managing confidentiality, and these issues were all handled effectively.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our work highlighted that the Council is responding well to the challenges of the Local Government Finance Settlement, delivering savings and targeting its resources effectively. The Council's ABC transformation programme has engaged staff successfully and continues to provide a highly effective process in identifying and delivering improvements in economy, efficiency and effectiveness. Of particular note is the fact that the Council is not averse to taking bold action such as the office rationalisation and relocation project.

One remaining area of concern is the delivery of the service changes and resulting financial savings recommended in the fundamental service review in the former Children, Learning and Young People Directorate. The review, which was intended to respond to the continuing financial pressures in relation to looked-after children (LAC), set ambitious targets for reducing the number of LAC through improved early intervention, as well as reducing costs through increasing the Council's own fostering capacity. These changes were intended to achieve significant financial savings from 2013/14 onwards.

These savings targets have, however, had to be recast because there have been delays in improving early intervention processes and problems in building fostering capacity. The context for the changes has also been affected by the recent serious case review involving the Directorate. While some good progress has been made, the Council needs to maintain pressure and ensure that the savings built into its overall plans are achievable.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Section 4: Certification of grant claims and returns

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Certification of grant claims and returns

Our work on certification of grant claims is on-going. Our work to date has not identified any issues which we wish to highlight. The detailed findings of our work will be reported in our Grant Certification report upon completion of our work.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	229,810	229,810
Grant certification fee	28,900	28,900
Total fees	258,710	258,710

Fees for other services

Service	Fees £
Due diligence work on the Regional Growth Fund	17,614
Certification of Low Emission Vehicle Demonstrators grant claim which falls outside of the Audit Commission certification arrangements	2,800

Reports issued

Report	Date issued
Audit Plan	10 April 2013
Audit Findings Report	3 September 2013
Annual Audit Letter	26 September 2013
Certification report	To be issued in December 2013



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