

# The Audit Plan for Coventry City Council

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**Year ended 31 March 2015**

23 March 2015

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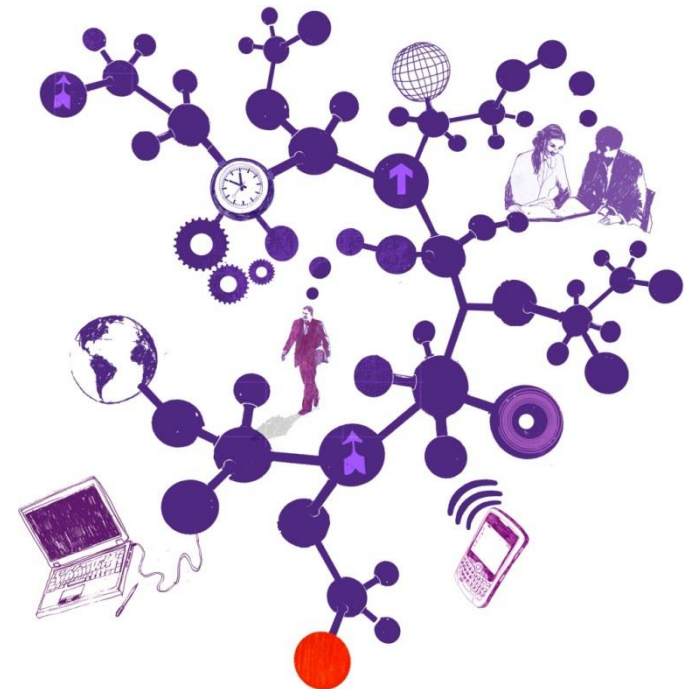
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

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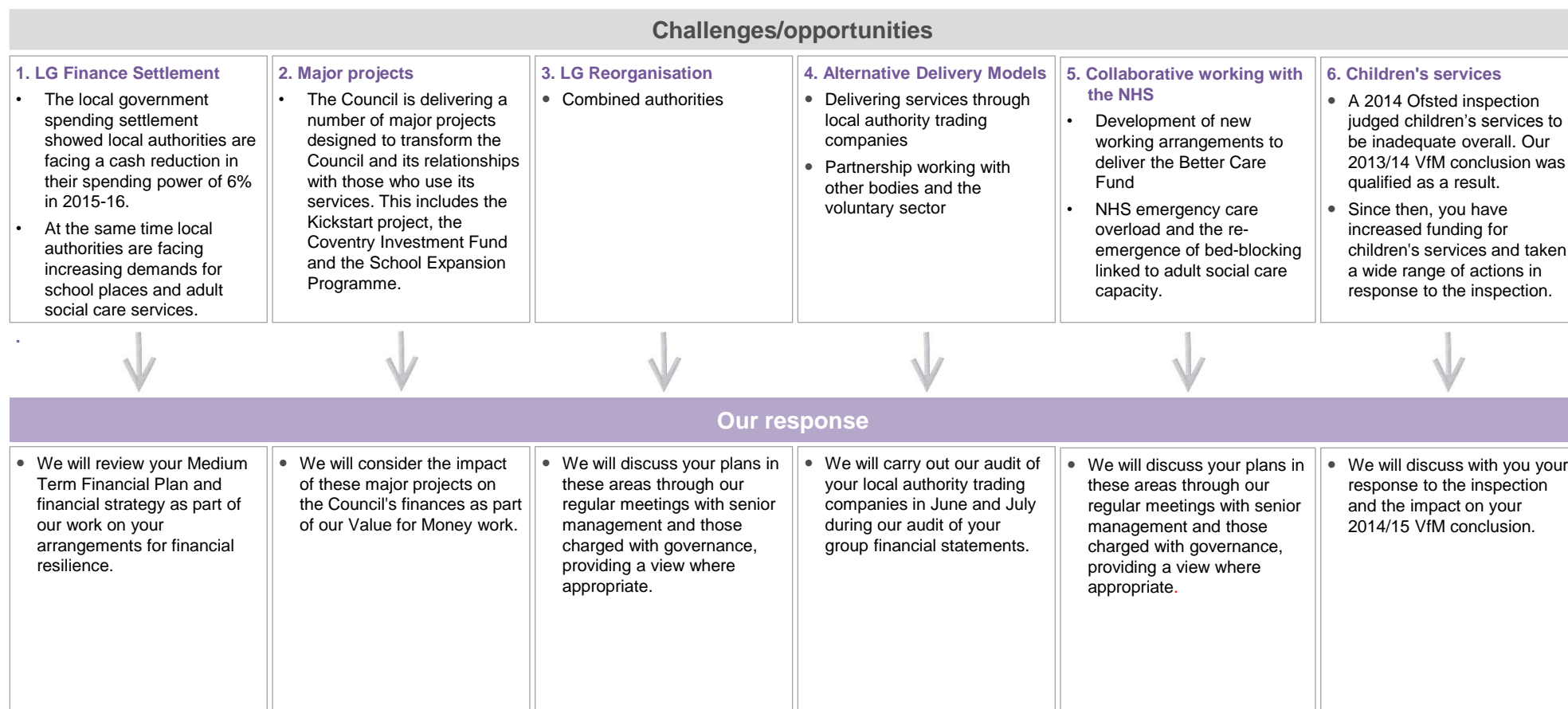
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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.



# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.

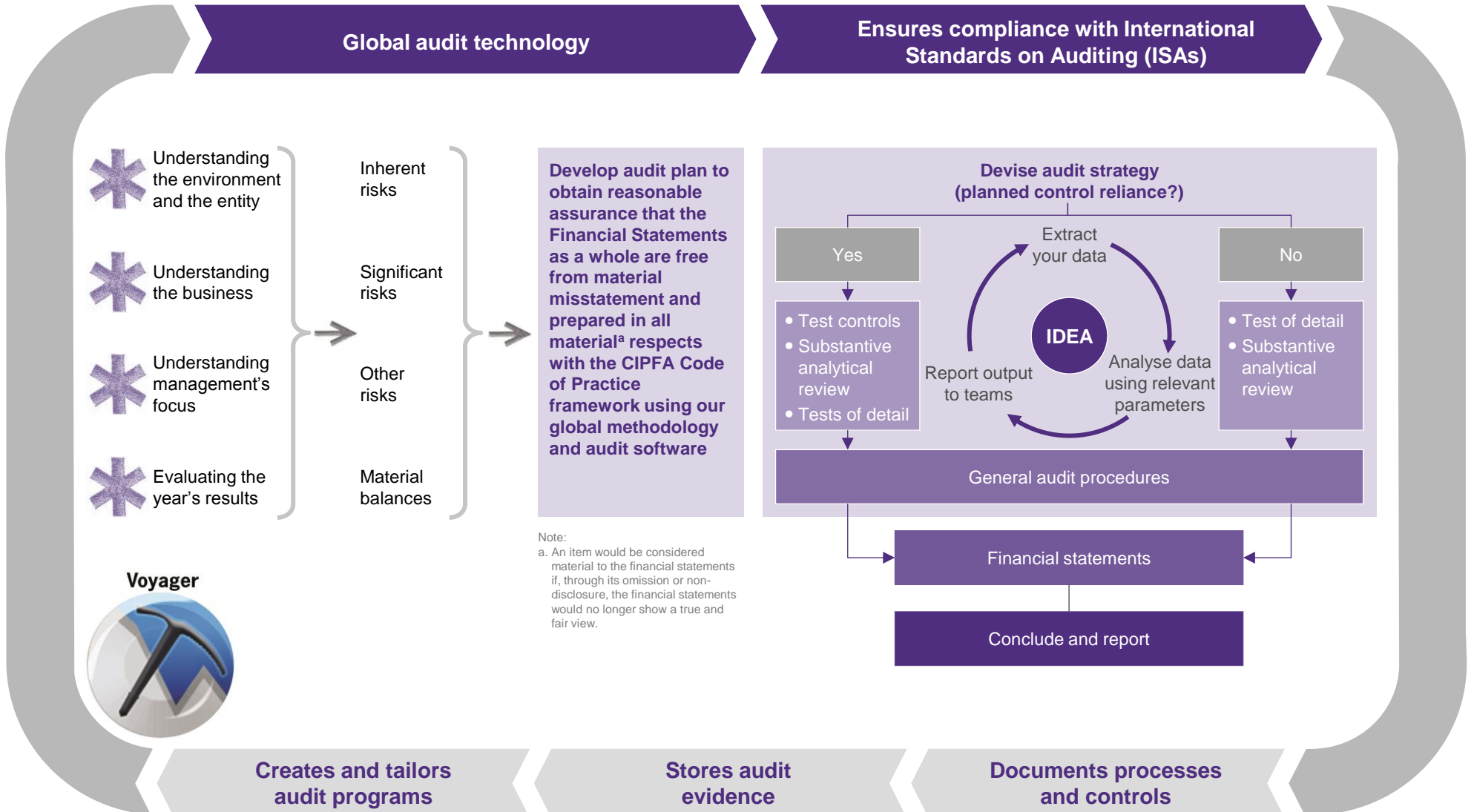
## Developments and other requirements

|   |  |   |  |  |   |
|---|--|---|--|--|---|
| <p><b>1. Financial reporting</b></p> <ul style="list-style-type: none"> <li>• Changes to the CIPFA Code of Practice</li> <li>• Changes to the recognition of school land and buildings on local authority balance sheets</li> <li>• Adoption of new group accounting standards (IFRS 10,11 and 12)</li> </ul> | <p><b>2. Legislation</b></p> <ul style="list-style-type: none"> <li>• Local Government Finance settlement</li> </ul> | <p><b>3. Corporate governance</b></p> <ul style="list-style-type: none"> <li>• Annual Governance Statement (AGS)</li> <li>• Explanatory foreword</li> </ul> | <p><b>4. Better Care Fund</b></p> <ul style="list-style-type: none"> <li>• Better Care Fund (BCF) plans and the associated pooled budgets will be operational from 1 April 2015</li> </ul> | <p><b>5. Financial Pressures</b></p> <ul style="list-style-type: none"> <li>• Managing service provision with less resource</li> <li>• Progress against savings plans</li> </ul> | <p><b>6. Other requirements</b></p> <ul style="list-style-type: none"> <li>• The Council is required to submit a Whole of Government accounts pack on which we provide an audit opinion</li> <li>• The Council completes grant claims and returns on which audit certification is required</li> </ul> |
|---|--|---|--|--|---|

## Our response

|  |  |  |   |   |   |
|--|--|--|---|---|---|
| <p>We will ensure that</p> <ul style="list-style-type: none"> <li>• the Council complies with the requirements of the CIPFA Code of Practice through discussions with management and our substantive testing</li> <li>• schools are accounted for correctly and in line with the latest guidance</li> <li>• the group boundary is recognised in accordance with the Code and joint arrangements are accounted for correctly</li> </ul> | <ul style="list-style-type: none"> <li>• We will discuss the impact of the legislative changes with the Council through our regular meetings with senior management and those charged with governance, providing a view where appropriate</li> </ul> | <ul style="list-style-type: none"> <li>• We will review the arrangements the Council has in place for the production of the AGS</li> <li>• We will review the AGS and the explanatory foreword to consider whether they are consistent with our knowledge</li> </ul> | <ul style="list-style-type: none"> <li>• We will consider whether the BCF is a risk in the context of our Value for Money work and will carry out further work if required</li> </ul> | <ul style="list-style-type: none"> <li>• We will review the Council's performance against the 2014/15 budget, including consideration of performance against the savings plan</li> <li>• We will undertake a review of Financial Resilience as part of our Value for Money work.</li> </ul> | <ul style="list-style-type: none"> <li>• We will carry out work on the WGA pack in accordance with requirements</li> <li>• We will certify the housing benefit subsidy claim in accordance with the requirements specified by Public Sector Audit Appointments Ltd. This company will take over the Audit Commission's responsibilities for housing benefit grant certification from 1 April 2015.</li> </ul> |
|--|--|--|---|---|---|

# Our audit approach



# Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

| Significant risk                                   | Description   | Substantive audit procedures   |
|--|---|--|
| The revenue cycle includes fraudulent transactions | <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Coventry City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Coventry City Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> |
| Management over-ride of controls                   | Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.   | <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions.</li> </ul>  |

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

| Other risks           | Description   | Audit Approach   |
|-----------------------|---|--|
| Operating expenses    | Creditors understated or not recorded in the correct period<br>(Operating expenses understated) | <ul style="list-style-type: none"><li>• Walkthrough of the key controls for this system</li><li>• Performance of substantive testing on material expenditure streams and creditors</li><li>• Review of accounting estimates, judgments and decisions made by management</li></ul>  |
| Employee remuneration | Employee remuneration accruals understated<br>(Remuneration expenses not correct)               | <ul style="list-style-type: none"><li>• Walkthrough of the key controls for this system</li><li>• Performance of substantive testing on material expenditure streams</li></ul>   |
| Welfare Expenditure   | Welfare benefit expenditure improperly computed   | <ul style="list-style-type: none"><li>• Walkthrough of the key controls for this system</li><li>• Testing of the final Housing Benefit claim will be completed using the HB COUNT methodology, with assurance for the financial statements taken from the testing of the initial sample of 20 cases per benefit category and other modules of the HB COUNT approach.</li></ul> |



# Group audit scope and risk assessment

ISA 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           | Planned audit approach   |
|--|--------------|--|----------------------------|--|
| Coventry and Solihull Waste Disposal Company Limited | Yes          | Targeted                                 | Investments carrying value | Review and testing of arrangements in place to produce group accounts. |
| Arena Coventry Limited*                              | Yes          | Targeted                                 | Investments carrying value | Review and testing of arrangements in place to produce group accounts. |
| Coventry North Regeneration Limited                  | No           | Analytical                               | None                       | Analytical procedures at the Group level                               |
| North Coventry Holdings Limited                      | No           | Analytical                               | None                       | Analytical procedures at the Group level                               |

\* During 2014/15 the Council sold its shares in Arena Coventry Limited (held by the Council via North Coventry Holdings Limited). We will review the accounting treatment of this transaction as part of the audit.

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# Value for money

## Value for money

The Code requires us to issue a conclusion on whether 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.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

| VfM criteria  | Focus of the criteria  |
|---|--|
| The organisation has proper arrangements in place for securing financial resilience                           | The organisation has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future |
| The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness | The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity   |

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- assessment of the adequacy of the Council's reserves at 31 March 2015
- review of the adequacy of the Council's savings plans in the medium term
- review of the adequacy of the Council's plans to change how it delivers services over the medium and longer term
- review of the adequacy of medium term financial plan in respect of how it addresses on-going cuts to revenue funding
- consider your continuing actions in response to the inspection of children's services and the impact on your VfM conclusion for 2014/15.

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Results of interim audit work

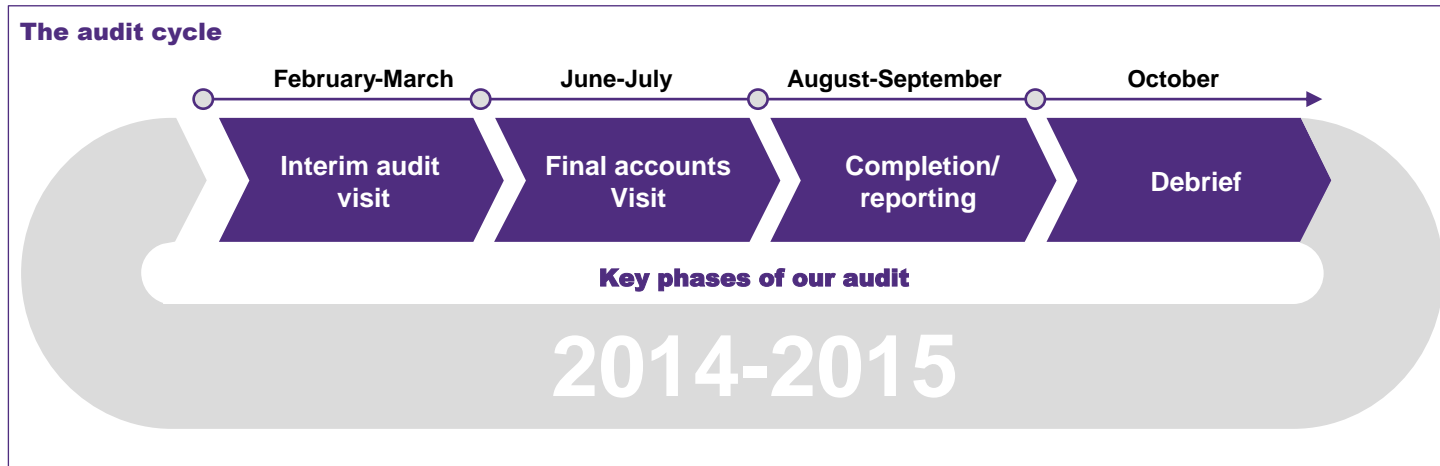
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

|                              | <b>Work performed and findings</b>   | <b>Conclusion</b>  |
|------------------------------|--|--|
| <b>Internal audit</b>        | <p>We have reviewed internal audit's overall arrangements in accordance with auditing standards.</p> <p>We continue to review internal audit's work on the Council's key financial systems.</p>  | <p>Overall, we have concluded that the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council. Our review of internal audit work completed to date has not identified any weaknesses which impact on our audit approach</p> |
| <b>Walkthrough testing</b>   | <p>We have completed walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>  | <p>Our work has not identified any weaknesses which impact on our audit approach.</p>  |
| <b>Entity level controls</b> | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"><li>• Communication and enforcement of integrity and ethical values</li><li>• Commitment to competence</li><li>• Participation by those charged with governance</li><li>• Management's philosophy and operating style</li><li>• Organisational structure</li><li>• Assignment of authority and responsibility</li><li>• Human resource policies and practices</li></ul> | <p>Our work has not identified any material weaknesses which are likely to adversely impact on the Council's financial statements</p>  |

# Results of interim audit work cont'd

|  | Work performed   | Conclusion   |
|--|--|--|
| <b>Review of information technology controls</b> | Our information systems specialist will be performing a high level review of the general IT control environment, as part of the overall review of the internal controls system. We will also perform a follow up of the issues that were raised last year.   | We will report the results of this work in our Audit Findings report.  |
| <b>Journal entry controls</b>                    | We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.  | We will undertake detailed testing on journal transactions as part of our final accounts visit in June and July 2015.  |
| <b>Early substantive testing</b>                 | We are currently undertaking a detailed programme of early substantive testing. This covers the following areas: <ul style="list-style-type: none"> <li>• Operating expenses</li> <li>• Other revenues</li> <li>• Employee remuneration</li> <li>• Revenue grants</li> <li>• Property, plant and equipment.</li> </ul>                                     | Our testing is currently underway but we have not identified any errors or issues to date which would result in a material misstatement of the Council's financial statements. |
| <b>Follow-up of issues from 2013/14 audit</b>    | Our Audit Findings report for 2013/14 raised a number of issues which officers agreed to consider further prior to the preparation of the 2014/15 financial statements. The most significant of these issues was in respect of accounting for PFI contracts. This work is currently underway and we are having regular discussions with officers about it. | We will report the results of this work in our Audit Findings report.  |
| <b>Value for money</b>                           | We have performed our initial risk assessment and are currently performing the work detailed on page 10 of this plan.  | We will report the results of this work in our Audit Findings report.  |

# Key dates



| <b>Date</b>           | <b>Activity</b>  |
|-----------------------|--|
| <b>February 2015</b>  | Planning   |
| <b>March 2015</b>     | Interim site visit   |
| <b>March 2015</b>     | Presentation of audit plan to Audit and Procurement Committee                            |
| <b>June-July 2015</b> | Year end fieldwork   |
| <b>TBC</b>            | Audit findings clearance meeting with Executive Director of Resources                    |
| <b>TBC</b>            | Report audit findings to those charged with governance (Audit and Procurement Committee) |
| <b>TBC</b>            | Sign financial statements opinion  |

# Fees and independence

## Fees

|                                   | £              |
|-----------------------------------|----------------|
| Council audit                     | 231,280        |
| Grant certification               | 20,930         |
| <b>Total fees (excluding VAT)</b> | <b>252,210</b> |

### Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

### Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited, as the successor to the Audit Commission in this area.
- 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 £   |
|--|--|
| Certification of teachers pension return for 2013/14                     | 4,200  |
| Certification of teachers pension return for 2014/15                     | 4,200  |
| Tax advice on structuring for Coventry & Solihull Waste Disposal Company | 4,796 to 33,572 (depending on scope of work performed) |

### Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

### Independence and ethics

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

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

# Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 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 Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan 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](http://www.audit-commission.gov.uk)).

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

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

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

|  | Audit plan | Audit findings |
|--|------------|----------------|
| <b>Our communication plan</b>  |            |                |
| 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 issue 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 the auditor's report, or emphasis of matter  |            | ✓              |
| Uncorrected misstatements  |            | ✓              |
| Significant matters arising in connection with related parties   |            | ✓              |
| Significant matters in relation to going concern   |            | ✓              |

# Communication of audit matters with those charged with governance (cont)

In addition to the areas covered on the previous page, we are required to consider the following in our discussions with those charged with governance (the Audit and Procurement Committee)

| Area of consideration  | Current understanding based on planning and interim work to date  |
|--|---|
| <b>Awareness of fraud or suspected fraud</b>   | There are no material instances of fraud that have been identified during the year. Any significant suspected or alleged fraud are investigated by Internal Audit and reported to the Audit and Procurement Committee on a regular basis.   |
| <b>Views about the risks of fraud</b>  | Although there is an on-going risk of fraud being committed against the Council arrangements are in place to both prevent and detect fraud. These include the regular review of arrangements and work carried out by Internal Audit as part of their annual plan. The risk of material misstatement of the accounts due to undetected fraud is low and this is consistent with the risk management processes that are in place within the Council.    |
| <b>Awareness of whistleblower tips or complaints</b>   | The Council has a Confidential Reporting (whistleblowing) Policy in place which outlines the responsibilities and channels for raising concerns and issues, and also the approach to be taken. There are no material instances of fraud that have been identified during the year arising from whistleblower tips or complaints.  |
| <b>How the Audit and Procurement Committee provide oversight of management's fraud risk assessment process</b> | The Annual Governance Statement and Head of Internal Audit Opinion are formally presented to the Audit and Procurement Committee on an annual basis.<br><br>The system of internal control is reviewed annually as part of the annual governance statement. The work plan of Internal Audit includes reviewing the operation of internal controls and appropriate segregation of duties. Internal Audit include fraud risk in their planning process. |





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