



The Annual Audit Letter for Coventry City Council

Year ended 31 March 2015

2 October 2015

John Gregory
Director

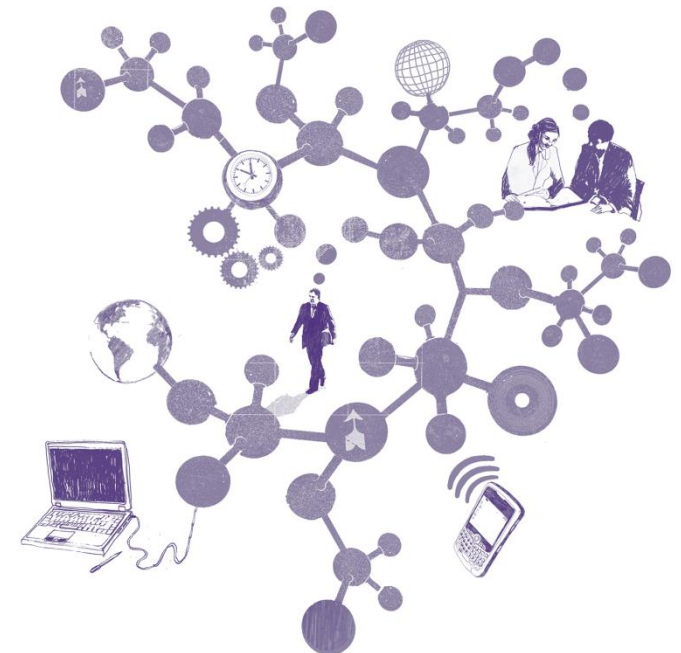
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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Coventry City Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. 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 23 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 3 August 2015 to the Audit and Procurement Committee. The key messages reported were:

- The Council has succeeded in its plans to bring forward the production of its draft financial statements, making them available for audit two weeks earlier than in the previous year. This enabled the audit to start earlier and, hence, helped to accelerate the reporting of our findings to the Audit and Procurement Committee
- The Council produced draft accounts to a good standard and with an overall high level of compliance with disclosure requirements. The most significant adjustment to the financial statements was in respect of the group balance sheet. Net assets and total reserves on the group balance sheet were overstated by £46.7m because the revaluation of the Council's investment in Coventry Solihull Waste Disposal Company in 2013/14 was not excluded from the group accounts. This error, which did not have any impact on the Council's overall financial position, was corrected.

The key recommendations arising from our financial statements audit are detailed in Appendix A.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 4 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages continued

Value for Money (VfM) conclusion	<p>We issued an unqualified VfM conclusion for 2014/15 on 4 September 2015.</p> <p>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 2015.</p> <p>An Ofsted inspection of children's services in March 2014 judged the services provided by the Council to be inadequate. Because of the severity of Ofsted's findings, we issued a qualified value for money conclusion in 2013/14. The Council have been working hard to address the issues raised by the Ofsted inspection. In particular, the Council has:</p> <ul style="list-style-type: none">• established a Children's Services Improvement Board which focuses specifically on the work being undertaken within Children's Service to improve service provision• ensured very strong leadership and commitment to addressing the issues• put an improvement plan in place with strong arrangements for monitoring• made significant additional resources available to Children's Services. <p>Officers from the Department of Education (DfE) have performed two reviews of children's services since the Ofsted inspection, in January and June 2015. The resulting Ministerial letters commented that:</p> <ul style="list-style-type: none">• the introduction of the Multi-Agency Safeguarding Hub appears to have been successful in bringing contributions from different agencies together• the Council is taking forward innovative practice, such as piloting a Family Drugs and Alcohol Court• the Council's work on permanency planning has resulted in 79% of children being placed for adoption within 18 months of entering care.
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Key messages continued

Value for Money (VfM) conclusion

However, the latest review has commented that:

- more work needs to be done to improve the consistency and quality of practice
- there is a significant issue in respect of involvement of all partners in child protection strategy discussions, though the review did note the determination of the Council, its partners and the Chair of the Local Safeguarding Children's Board to find an urgent solution.

It is clear that the Council has put strong arrangements in place to address the issues highlighted by Ofsted and that there is very strong commitment to driving these through. Whilst the Council, the Improvement Board and DfE all recognise that the Council is on a journey and that continuing work is needed, implementation of the improvement plan is starting to have a significant impact on performance. Therefore, we have not qualified the VfM conclusion in respect of this issue in 2014/15.

There was a small overspend of £2.2m on the Council's revenue budget in 2014/15, due largely to rising cost pressures in adult social care and services for looked after children. The Council continues to make significant savings, though it has not met its challenging savings targets in full for the last three years. The Council will need to deliver planned savings if it is to maintain its sound financial position.

The key recommendations arising from our value for money conclusion work are detailed in Appendix A.

Key messages continued

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.
Certification of housing benefit grant claim	Our certification work on the Council's housing benefit grant claim is currently underway. We expect to certify this claim by the Department of Work and Pension's deadline of 30 November
Audit fee	Our fee for 2014/15 was £252,210, excluding VAT, which was in line with our planned fee for the year and represented an increase of 1% from the previous year. Further detail is included within appendix B.

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible officer/ due date
1.	<p>Issue: Our testing on the financial statements found instances of accruals not being raised which should have been raised and an invoice being raised in error and the credit note to cancel it not being issued promptly. These errors were not evidence of a material error in the financial statements and no adjustments were needed to the financial statements in respect of them. It appears that the errors arose through:</p> <ul style="list-style-type: none"> • internal controls not operating effectively when officers left the Council's employment • lack of understanding of the Council's financial procedures by officers who replaced officers who had left the Council's employment • human error. <p>Recommendation: The Executive Director of Resources should:</p> <ul style="list-style-type: none"> • ensure that all officers responsible for raising accruals and credit notes understand what is required of them • arrange appropriate training for officers who have recently taken on financial responsibilities as part of their role. 	High	<p>Management response: The following actions will be incorporated into the 2015/16 accounts closedown procedures:</p> <ul style="list-style-type: none"> • the raising of accruals and credit notes will receive a higher profile within the final accounts communication material for the 2015/16 closedown • final accounts training will cover this aspect specifically • additional checks will be undertaken at year end to ensure greater accuracy in this area. <p>Responsible officer: Finance Manager, Corporate Finance Due date: March-April 2016</p>

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2.	<p>Issue: The Council's earmarked reserves increased in 2014/14 but the General Fund reserve has fallen to just over £5m. A comparison of levels of usable reserves to other similar local authorities shows that the Council has below average earmarked and general fund reserves (as at 31/3/14).</p> <p>Recommendation: The Executive Director of Resources should:</p> <ul style="list-style-type: none">• continue to assess the adequacy of the General Fund reserve in the light of the financial risks facing the Council over the medium and long term• review earmarked reserves to ascertain whether they are sufficient for the Council's needs.	High	<p>Management response: The Local Government Act 2003 requires the Executive Director of Resources to give assurance on the adequacy of reserves of the Authority when it sets its budget each year. The adequacy of all reserves will continue to be monitored and reported at key points through the annual financial cycle process.</p> <p>Responsible officer: Executive Director of Resources Due date: On-going</p>

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3.	<p>Issue: The Council's overall financial position remains challenging, given the level of savings that it needs to find in order to set balanced budgets in future years. The Council will need to continue to deliver planned savings if it is to maintain its sound financial position. There was a small overspend of £2.2m on the Council's revenue budget in 2014/15, due largely to rising cost pressures in adult social care and services for looked after children.</p> <p>Recommendation: The Council needs to maintain its sound financial position by continuing to :</p> <ul style="list-style-type: none"> • keep tight financial control • keep the medium term financial plan up-to-date and plan for a range of potential scenarios • ensure that planned saving programmes are delivered • plan for how savings will be made in the medium term in respect of children's social care services. 		<p>Management response: On-going maintenance of tight financial control continues to be a key focus for the Council as demonstrated by its continued sound budgetary control performance and enforced by more timely budgetary control information through the Council's new financial information system.</p> <p>Rolling medium term financial planning forecasts reflecting a range of potential scenarios continue to be maintained and Members are being informed of these within the forthcoming Budget Setting process.</p> <p>Key savings programmes are being delivered within specific projects and are subject to specific monitoring by the Council's Strategic Management Board.</p> <p>The Council is continuing to focus on ensuring that Children's services are resourced to meet the immediate demands of the service across Coventry. Over the medium term, it will be necessary to ensure that social care and early intervention services are delivered in a way that strikes an appropriate balance between service need and the achievement of value for money, including managing the service at lower cost compared with 2015/16 levels.</p> <p>Responsible officer: Executive Director of Resources Due date: On-going</p>

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4.	<p>Issue: The annual outturn report to Cabinet does not compare actual savings delivered against those planned</p> <p>Recommendation: The annual outturn report to Cabinet should compare actual savings delivered against those that were planned. The reporting should be at the same level of detail as the Budget Report so that members can compare actual against budgeted performance</p>	High	<p>Management response: This monitoring will be incorporated within the 2015/16 Outturn Report.</p> <p>Responsible officer: Finance Manager, Corporate Finance</p> <p>Due date: May 2016</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	Per Audit plan £	Actual fees £
Council audit	231,280	231,280
Housing benefit grant certification fee	20,930	20,930
Total audit fees	252,210	252,210

Reports issued

Report	Date issued
Audit Plan	23 March
Audit Findings Report	3 August
Annual Audit Letter	2 October

Fees for other services

Service	Fees £
Audit related services	
• Certification of teachers pension return for 2013/14	4,200
• Certification of teachers pension return for 2014/15	4,200
Non-audit related services	
• Tax advice on structuring for Coventry & Solihull Waste Disposal Company	12,796



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