



# The Annual Audit Letter For Coventry City Council

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**Year ended 31 March 2017**

9 October 2017

**Mark Stocks**  
**Partner**

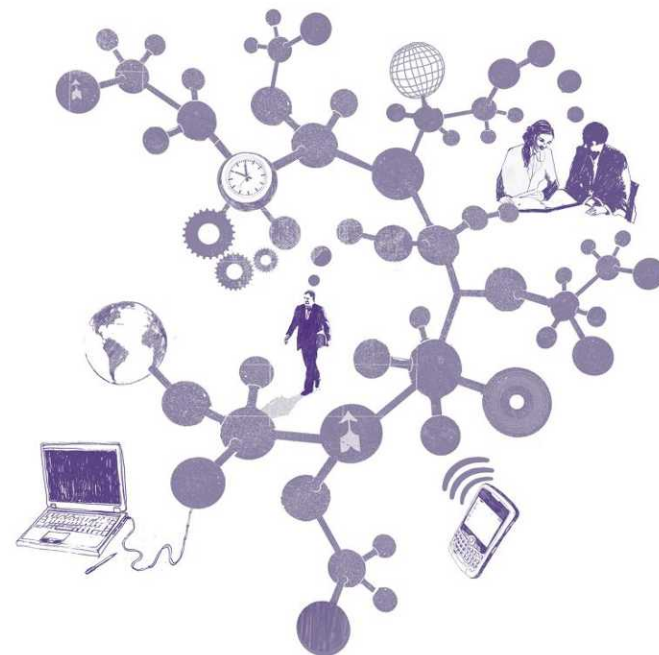
T 0121 232 5437  
E [mark.c.stocks@uk.gt.com](mailto:mark.c.stocks@uk.gt.com)

**Simon Turner**  
**Manager**

T 0121 232 5273  
E [simon.a.turner@uk.gt.com](mailto:simon.a.turner@uk.gt.com)

**Paul Harvey**  
**Assistant Manager**

T 0121 232 5329  
E [paul.m.harvey@uk.gt.com](mailto:paul.m.harvey@uk.gt.com)



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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Coventry City Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Procurement Committee (as those charged with governance) in our Audit Findings Report on 11 September 2017.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 11 September 2017.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 11 September 2017.

### **Whole of government accounts**

We are required to carry out specified procedures (on behalf of the NAO) on the WGA consolidation pack under WGA group audit instructions. The deadline for the submission of the pack to the NAO was 29 September. The pack was not submitted until 5 October. This was due to the Council not completing the pack until after the 29 September deadline had passed. The Council has stated that technical errors in the pack supplied by central government contributed significantly to the delay in its completion.

### **Certificate**

We certified that we had completed the audit of the accounts of Coventry City Council in accordance with the requirements of the Code on 9 October 2017.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Procurement Committee in our Annual Certification Letter.

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**Other work completed**

We provided you with access to CFO insights, 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. The Council has purchased a licence to provide on-going access to this tool.

The Council has participated in our Opportunity West Midlands Training Programme. This is a series of workshops for finance officers which enables them to learn new skills, listen to guest speakers and network with their peers.

We have also provided your teams with training on developments in financial accounts and housing benefit subsidy certification. The courses were attended by Council staff.

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**  
**October 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £13.572 million, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration and related party transactions.

We set a lower threshold of £633,000, above which we reported errors to the Audit and Procurement Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the Director of Finance and Corporate Services are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

| Risks identified in our audit plan   | How we responded to the risk   | Findings and conclusions  |
|--|--|---|
| <p><b>Valuation of property, plant and equipment</b><br/>           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.</p> | <p>We completed the following testing:</p> <ul style="list-style-type: none"> <li>• review of entity controls</li> <li>• review of management's processes and assumptions for the calculation of the estimate</li> <li>• review of the competence, expertise and objectivity of management experts used</li> <li>• review of the instructions issued to valuation experts and the scope of their work</li> <li>• discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• 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.</li> </ul> | <p>The CIPFA Code of Practice requires local authorities to revalue its investment properties annually. The Council did not comply with this requirement. We discussed this with the Council's Valuer who provided additional evidence and correspondence on this matter. In particular, the Valuer confirmed that they had reviewed the overall value of investment properties and were satisfied that the value of investment properties was not materially misstated. While we considered that there was a risk of misstatement we were satisfied that the risk of a material misstatement was adequately mitigated. We 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.</p> <p>The Council valued its other land and properties on a 5 year cyclical basis. This is in accordance with the CIPFA Code of Practice. We reviewed the potential change in the value of schools valued on a depreciated replacement costs basis since their last valuation. We estimated that the value was potentially understated by £7.2m. As this value was not material the Council did not alter the financial statements.</p> |

# Audit of the accounts (continued)

| Risks identified in our audit plan   | How we responded to the risk   | Findings and conclusions   |
|--|--|--|
| <p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p> | <p>We completed the following testing:</p> <ul style="list-style-type: none"><li>• 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.</li><li>• 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.</li><li>• Review of the reasonableness of the actuarial assumptions made.</li><li>• 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.</li></ul> | <p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p> |

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 11 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Procurement Committee on 11 September 2017.

In addition to the key audit risks reported above, we identified some control issues in relation to the Council's key financial IT systems. The key recommendations arising from our financial statements audit were reported in our Audit Findings Report, which was presented to the Audit & Procurement Committee on 11 September, and are not repeated here.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We are required to carry out specified procedures (on behalf of the NAO) on the WGA consolidation pack under WGA group audit instructions. The deadline for the submission of the pack to the NAO was 29 September. The pack was not submitted until 5 October. This was due to the Council not completing the pack until after the 29 September deadline had passed. The Council was due to submit the draft pack to us by 30 June, but we did not receive it until 11 September. The Council has stated that technical errors in the pack supplied by central government contributed significantly to the delay in its completion.



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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.*

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

## **Overall VfM conclusion**

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 2017

# Value for Money

**Table 2: Value for money risks**

| Significant risk   | Work to address  | Findings and conclusions  |
|--|--|---|
| <p><b>Medium term financial planning</b><br/>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.</p>                         | <p>We assessed whether the Council is:</p> <ul style="list-style-type: none"> <li>• producing and using appropriate and reliable financial information to support informed decision making and performance management</li> <li>• producing reliable and timely financial reporting that supports the delivery of strategic priorities</li> <li>• planning its finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li> <li>• taking action to manage social care expenditure.</li> </ul> | <p>We found that the Council has:</p> <ul style="list-style-type: none"> <li>• set a balanced budget for 2017/18 and is forecasting a balanced budget for 2018/19 and 2019/20</li> <li>• a strong track record of delivering planned savings</li> <li>• plans to maintain a reasonable level of reserves in the medium term</li> <li>• provided in-year budget monitoring reports to Cabinet on a timely basis that paint a comprehensive picture of the Council's finances</li> </ul> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for:</p> <ul style="list-style-type: none"> <li>• planning finances effectively to support its strategic functions</li> <li>• making informed decisions.</li> </ul> |
| <p><b>Ofsted inspection of children's services</b><br/>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.</p> | <p>We updated our understanding of the Council's arrangements following the result of the latest Ofsted inspection and considered their adequacy.</p>  | <p>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.</p> <p>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.</p>  |

# Value for Money (continued)

**Table 2: Value for money risks**

| Significant risk  | Work to address  | Findings and conclusions   |
|---|--|--|
| <p><b>West Midlands Combined Authority</b><br/>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.</p> | <p>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.</p> | <p>We found that the Council has:</p> <ul style="list-style-type: none"> <li>• adequately assessed the risks arising from the creation of WMCA and has put arrangements in place to mitigate and manage those risks</li> <li>• taken advantage of the opportunities offered by the Devolution Deal by participating in the business rates retention pilot</li> <li>• obtained WMCA funding for the Friargate and City Centre South initiatives</li> <li>• seconded key officers to WMCA, thus ensuring that Coventry's voice is heard within the highest levels of that body.</li> </ul> <p>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,</p> <ul style="list-style-type: none"> <li>• 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</li> <li>• a significant proportion of WMCA's planned borrowing is supported by Mayoral revenue streams and currently there is uncertainty over how this income will be generated.</li> </ul> <p>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.</p> |

# Appendix A: Reports issued and fees

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

## Fees

|   | Proposed fee<br>£ | Final fee<br>£ |
|---|-------------------|----------------|
| Council audit                           | 173,460           | 173,460        |
| Grant certification*                    | 15,698            | 15,698         |
| <b>Total audit fees (excluding VAT)</b> | <b>189,158</b>    | <b>189,158</b> |

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'.

## Reports issued

| Report                | Date issued       |
|-----------------------|-------------------|
| Audit Plan            | 3 April 2017      |
| Audit Findings Report | 11 September 2017 |
| Annual Audit Letter   | 9 October 2017    |

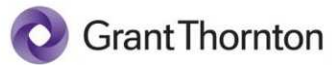
## Fees for other services

| Service   | Fees £ |
|---|--------|
| <b>Audit related services:</b>  |        |
| • Certification of 2016/17 Teachers Pension Return                                      | 4,200  |
| <b>Non-audit services</b>   |        |
| • CFO Insights (Full cost for 3-year subscription is £30,000. Annual charge is £10,000) | 10,000 |
| • Opportunity West Midlands Training Programme  | 15,000 |

### Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other 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, as reported in our Audit Findings Report.

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 and Procurement Committee.



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