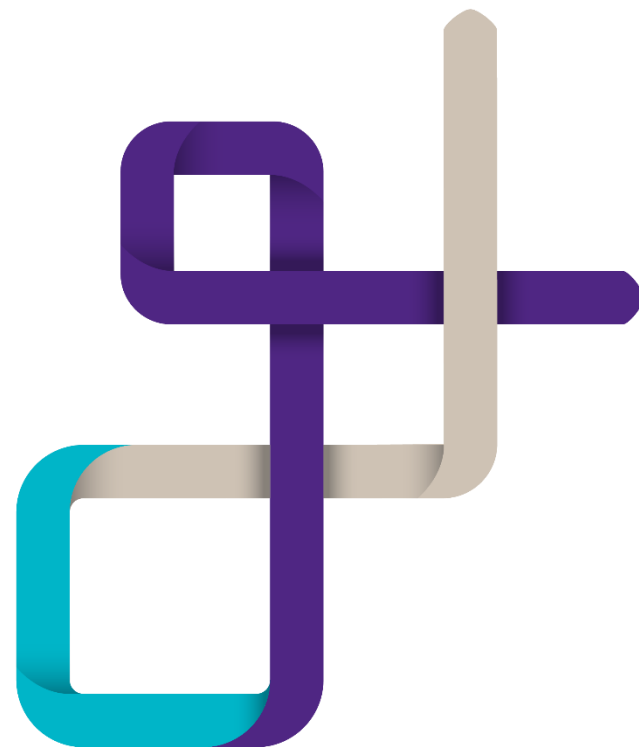


Audit Findings

Year ending 31 March 2018

Coventry City Council

16 July 2018



Contents



**Your key Grant Thornton
team members are:**

Mark Stocks
Partner

T: 0121 232 5347
E: mark.c.stocks@uk.gt.com

Joan Barnett
Manager

T: 0121 232 5399
E: joan.m.barnett@uk.gt.com

Paul Harvey
Assistant Manager

T: 0121 232 5329
E: paul.m.harvey@uk.gt.com

Section	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	19
4. Independence and ethics	22

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Headlines

This table summarises the key issues arising from the statutory audit of Coventry City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. 	<p>Our audit work was completed on site during the period 21 May to 6 July 2018. Our findings are summarised on pages 4 to 21. We did not identify any adjustments to the financial statements that resulted in an adjustment to the Statement of Comprehensive Income and Expenditure.</p> <p>Audit adjustments were made to improve presentation or to reflect underlying records These are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Procurement Committee meeting on 16 July 2018, as detailed in a separate paper presented to the meeting. These outstanding items include:</p> <ul style="list-style-type: none"> - Completion of a small amount of audit testing: conclusion of testing better care fund expenditure, receipt of the value of pension benefits paid in March 2018 from the West Midlands Pension Fund, final letter from the auditor of the West Midlands Pension Fund; and completion of group accounts (we await receipt of final signed letter from the auditor of the Coventry and Solihull Waste Disposal Company due by 13 July 2018) - Completion of our subsequent events review - Completion of Whole of Government Accounts Procedures; and - review of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Coventry City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in the separate paper being presented to the Committee. Our findings are summarised on pages 19 to 21.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for the Coventry City Council component (significant component) and a targeted approach was required for Coventry and Solihull Waste Disposal Company (CSWDC); and Coombe Abbey Hotel components to address specific risks. An analytical approach was required for Coventry North Regeneration Ltd; and for North Coventry Holdings Ltd.

- Full scope audits of the significant component by the group engagement team and targeted testing for CSWDC focusing on the carrying value of the investments; and at Coombe Abbey Hotel focusing on the valuation of the hotel.
- An evaluation of the group's internal controls environment including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Procurement Committee meeting on 16 July 2018, as detailed in the separate paper presented to the Committee. These outstanding items include:

- Completion of a small volume of residual work as outlined on page 3
- Completion of our subsequent events (post balance sheet events) review
- Completion of Whole of Government Accounts Procedures and
- receipt of management representation letter.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have updated our consideration of materiality since we issued our Audit Plan on 18 March 2018 to reflect the values recorded in the draft financial statements received in May 2018. Materiality was calculated using the prior year financial statements when we issued our audit plan.

We have, in common with other Local Authorities, set separate lower materiality levels for certain disclosures in the accounts. In view of the sensitivity of these disclosures to the reader of the Report, we have set a materiality level of £100k in respect of Senior Officers' Remuneration.

We detail in the table below our assessment of materiality for Coventry City Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	12,642,000	12,610,000	None
Performance materiality	9,482,000	9,457,000	None
Trivial matters	632,100	630,500	None
Materiality for specific transactions, balances or disclosures	100,000 (senior officer remuneration)	100,000 (senior officer remuneration)	Sensitivity of the disclosure to the reader of the financial statements.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management has considered:

- The Council's historical balanced financial position including its high level of reserves
- Consideration of significant investment planned through the Council's membership of the West Midlands Combined Authority
- Oversight and assessment of financial risk and performance
- Looking forward to 2018/19 and beyond including plans to invest in circa £900m of investment to help drive economic growth in the city Coventry to encourage economic growth which will also help sustain or increase income from business rates.

Auditor commentary

- We are satisfied that it is appropriate that management has used the going concern assumption in the preparation and presentation of the financial statements
- In particular, we are satisfied that management has considered all pertinent areas relevant for consideration of the Council's ability to continue as a going concern.
- The assessment was led by the Council's Director of Finance and Corporate Services.

Work performed

We reviewed management's assessment by:

- Ensuring the assessment concurred with our knowledge of the Council
- Reviewing the two year balanced budget to 2019/20 approved by Cabinet in February 2018.

Auditor commentary

- We are satisfied there is no material uncertainty about the Trust's ability to continue as a going concern.

Concluding comments

We are satisfied the use of the going concern assumption is appropriate.

Auditor commentary

- We did not identify any events or conditions during the course of our audit that casted any significant doubt on the Council's ability to continue as a going concern.
- There is no impact on our audit opinion which is unmodified in relation to Going Concern

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. 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>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Coventry City Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Coventry City Council.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We:</p> <ul style="list-style-type: none"> • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtained a full listing of journal entries to identify and test unusual journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant audit risks

Risks identified in our Audit Plan

Commentary

3 Valuation of property, plant and equipment Auditor commentary

The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration and a key audit matter for the audit.

We:

- reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- considered the competence, expertise and objectivity of any management experts used;
- held discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions;
- reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;
- tested revaluations made during the year to ensure they are input correctly into the Council's asset register; and
- evaluated 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.

We concluded that the valuation basis was appropriate and that the resulting revaluation was appropriately accounted for.

Our audit work has not identified any issues in respect of the valuation of property plant and equipment.

4 Valuation of pension fund net liability Auditor commentary

The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration and a key audit matter for the audit.

We:

- identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement
- evaluated 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
- undertook procedures to confirm the reasonableness of the actuarial assumptions made.
- checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary

Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<div data-bbox="68 291 99 325">7</div> <div data-bbox="138 287 412 311">Employee remuneration</div> <div data-bbox="138 315 789 368"><p>Payroll expenditure represents a significant percentage of the Council's operating expenses.</p></div> <div data-bbox="138 401 789 539"><p>As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p></div>	<div data-bbox="810 287 1042 311">Auditor commentary</div> <div data-bbox="810 325 851 349"><p>We:</p></div> <div data-bbox="810 364 2013 729"><ul style="list-style-type: none">• evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;• gained an understanding of the Council's system for accounting for payroll expenditure, and evaluated the design of the associated controls;• obtained year-end payroll reconciliation and ensured amounts in the accounts could be reconciled to the ledger and through to payroll reports. We investigated any significant adjusting items;• tested a sample of agency payments paid via invoice;• agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documentation and reviewed any estimates for reasonableness. We considered whether this may be understated and whether any omissions to the accruals existed;• performed substantive analytical procedures on payroll data disaggregated by month. We ensured the audit team gained assurance over the completeness of staff FTE's before undertaking this work.</div> <div data-bbox="810 743 1502 768"><p>Our audit work has not identified any issues in respect of this risk.</p></div> <div data-bbox="810 782 1970 835"><p>We did identify that the payroll system is not reconciled regularly with the general ledger. More information on this is provided on page 16 – internal controls.</p></div>

Reasonably possible audit risks




Risks identified in our Audit Plan		Commentary
8	Operating expenses Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.	Auditor commentary
	We identified completeness of non- pay expenses as a risk requiring particular audit attention:	<p>We:</p> <ul style="list-style-type: none">evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;documented the accruals process and the controls management have put in place;obtained a listing from the cash book of non-pay payments made in April and ensured that they had been charged to the appropriate year;obtained a listing of creditors and tested a sample of item to supporting evidence;Obtained a listing of payments from new year cash book and tested a sample to ensure that any which should have been accrued had been. <p>Our audit work has not identified any significant issues in respect of this risk.</p> <p>Our testing identified that the Council's accounting policy disclosure in the draft accounts in relation to accruals of income and expenditure – having a de-minimis threshold of £5,000 for accruals of income and expenditure that are not system generated - did not fully reflect the policy applied during the accounts closedown period. The £5k level is in place for the first 10 working days of April following the year end date of 31 March. The de-minimis then rises to £50k for working days 11-20; and then again rises to £500k until the ledger closes. We identified this issue when testing an invoice value £6,142.50 that, on first audit review should have been accrued for in the prior year. The invoice was accounted for in line with the Council's accounting policies; but the accounting policy disclosure did not include this specific closedown policy. We did not identify any other such issues. The Council agreed to amend the accounting policy to reflect the policy applied in practice.</p>

Significant matters discussed with management




This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	
<div data-bbox="68 361 99 392">6</div> <p>We discussed with management whether the disclosure in section 5.3 Critical Judgements in relation to Going Concern status in the draft financial statements is relevant. The basis for our discussion was our consideration that the Going Concern assumption was appropriate (see page 6):</p> <ul style="list-style-type: none">that the Council's usable reserves balances are significant being £122,566k as at 31 March 2018Our satisfaction, on completion of our Value for Money audit, that the Council has adequate arrangements in place to secure sustainable resource deployment andmanagement's detailed consideration of the Going Concern assumption reflecting our knowledge of the Council.	<ul style="list-style-type: none">As part of our cumulative audit work and our Value for Money Initial Risk Assessment we were already of the opinion that the going concern assumption was applicable to the preparation of the Council's financial statementsThe completion of our Value for Money work confirmed that there were no concerns in relation to the Council's longer term financial sustainability, and hence no concerns identified in relation to going concernWe raised the disclosure in the draft accounts this for discussion with management who agreed that this was not an area of critical judgement given the Council's strong financial standing. In addition, it was agreed with management that paragraph 2.1.2.6 of CIPFA's Code states that the financial statements shall be prepared on a going concern basisManagement agreed to remove this disclosure.	<p>Auditor view</p> <ul style="list-style-type: none">Subject to our review of the amended statements confirming the removal of this disclosure we are satisfied that there are no matters arising from the discussion. <p>Management response</p> <ul style="list-style-type: none">We have removed the disclosure from the financial statements.


Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Government grants and contributions are recognised in the Comprehensive Income and Expenditure Statement when there is reasonable assurance that the payment will be received and conditions will be satisfied. Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services. 	<ul style="list-style-type: none"> The accounting policy is appropriate and has been adequately disclosed. 	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include : <ul style="list-style-type: none"> Useful life of capital equipment Revaluations Impairments PPE valuations Valuation of pension fund net liability Provision for NNDR appeals 	<p>There has been appropriate disclosure of key estimates and judgements.</p> <p>We have already reported in respect of the approach to valuing PPE and valuing the pension fund net liability in the section headed 'Significant risks.'</p>	 Green
Other critical policies		<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.</p> <p>We have rated this as amber due to our recommending an update to the accounting policy in relation to accruals. Further information is provided on page 10.</p>	 Amber




Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Valuation methods	<ul style="list-style-type: none"> The Local Government Pension Scheme is subject to a full actuarial valuation every five years and an accounting valuation every year As the Council's share of the underlying assets of both the Teachers Pension Scheme; and NHS Pension Scheme cannot be identified these are both accounted for as defined contribution schemes. Property Assets included in the balance sheet at fair value are revalued where there have been material changes in the value, but as a minimum every five years, except Assets Held for Sale which are valued annually Over 80% of the value of investment properties are revalued annually. The remaining assets are reviewed to ensure there is no indicative material change to their value. Intangible assets are initially valued at cost. All other assets are held at cost. Each year all assets are depreciated, and intangible assets amortised based on their remaining useful economic lives; and an annual impairment review is undertaken. 	<ul style="list-style-type: none"> We are satisfied these valuation methods are appropriate and not dissimilar to the Council's peers. The Council changed its valuation approach for investment properties in response to our prior year audit findings. Therefore a significant proportion of investment properties are now subject to an annual valuation. 	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Procurement Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Procurement Committee papers.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from third parties for the Council's material bank and short term investment balances. These confirmations did not raise any issues about the sums recognised in the Council's financial statements. We also requested direct confirmations for a sample of bank accounts operated by schools. We obtained 4 of the 8 confirmations sought. In respect of confirmations not received, we undertook alternative procedures, including agreement of year end balances to original bank statements held by the schools and to their online banking records. We obtained direct confirmation for all of the Council's material loans.
6	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements
7	Audit evidence and explanations	<ul style="list-style-type: none"> All information and explanations requested from management was provided.
8	Significant difficulties	<ul style="list-style-type: none"> We did not encounter any significant difficulties during the audit.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<ul style="list-style-type: none"> We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. <p>No inconsistencies have been identified.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of [£500k] we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <ul style="list-style-type: none"> Note that work is not yet completed as we await the receipt of the DCT form from the Council. We plan to complete this work before the 31 August 2018.
④ Certification of the closure of the audit	<p>We do not expect to be able to certify the completion of the 2017/18 audit of Coventry City Council in our auditor's report, as detailed in the separate paper presented to Audit and Procurement Committee as the WGA work will not have been completed by 31 July 2018.</p>



Internal controls

Assessment


- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

	Assessment	Issue and risk	Recommendations
1.	●	<p>Lack of regular reconciliation between the payroll system and the general ledger</p> <p>Whilst performing audit procedures on employee remuneration we identified that there was a £183k unreconciled difference between the two systems. This £183k difference applied in total to the officers (£174k) and members (£9k) payrolls. Whilst this is trivial for external audit purposes, we are reporting this issue to you as payroll represents a significant proportion of the Council's expenditure.</p>	The payroll and general ledger should be reconciled on at least a quarterly basis to mitigate the risk that the financial statements do not capture all payroll expenditure.
2.	●	<p>Lack of formal reviews of information security policies and procedures</p> <p>The Council has issued information security policies for use by staff, covering many facets of information security. We have noted however that the Council's main IT 'security policy' 'Standard for Acceptable Use of Computer, Internet & E-mail Facilities' has not been updated since August 2009</p> <p>This condition poses the following risks to the organisation:</p> <ul style="list-style-type: none"> a) Security administration processes and control requirements may not be formalised, understood by, or communicated to those within the organisation responsible for observing and/or implementing them b) Effectiveness of security administration processes and controls may be diminished due to environmental and/or operational changes c) Information security processes, requirements and controls may be inconsistently defined, understood and implemented throughout the organisation. d) The lack of formal (documented) information security requirements may make sanctioning employees for inappropriate use of information resources more difficult. For example, a user who caught sharing personal passwords with other employees may be able to claim ignorance of any wrongdoing as this action did not violate any organisational policy documents. 	Information security policies and procedures should be reviewed at planned intervals or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness.



Internal controls

	Assessment	Issue and risk	Recommendations
3.		<p>Weak logical access controls within Active Directory and ResourceLink</p> <p>We noted the following logical access control weaknesses</p> <p>a) Password complexity (i.e. the requirement that passwords must contain more than one character set, such as numbers and letters) was not enforced within ResourceLink and Active Directory at time of review.</p> <p>b) User accounts within ResourceLink and Active Directory were not automatically locked (i.e., prevented from future logins) after a predefined, risk-based amount of unsuccessful login attempts.</p> <p>This condition poses the following risk to the organisation: Compromise of user accounts through password guessing or cracking.</p>	<p>Password complexity should be consistently enforced within ResourceLink and Active Directory. Where / if possible, management should enable account lockout controls within Active Directory to address the risk of password cracking. Where / if an account lockout restriction cannot be enforced due to system limitation or other reasons, management should explore other controls designed to address the risk of password cracking within Active Directory. Alternative controls could include increased monitoring of login activity or more stringent enforcement of password length and complexity requirements.</p>
4.		<p>Proactive reviews of logical access within Agresso and Active Directory</p> <p>User accounts and associated permissions within Agresso and Active Directory are not formally, proactively reviewed for appropriateness. We do however note that there is a process to review inactive accounts on Active Directory but this process does not currently consider the appropriateness of permissions.</p> <p>Continued over....</p>	<p>It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).</p>



Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Internal controls

	Assessment	Issue and risk	Recommendations
4.		<p>This condition poses the following risks to the organisation:</p> <p>a) Gaps in user administration processes and controls may not be identified and dealt with in a timely manner.</p> <p>b) Access to information resources and system functionality may not be restricted on the basis of legitimate business need.</p> <p>c) Enabled, no-longer-needed user accounts may be misused by valid system users to circumvent internal controls.</p> <p>d) No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts.</p> <p>e) Access privileges may become disproportionate with respect to end users' job duties.</p>	
5.		<p>Journals posted by authorised officers are not subject to approval (alternate controls are in place)</p> <p>Whilst confirming our understanding of controls relating to the journals approval process we confirmed that journals posted by authorised personnel do not have to be approved. Alternate controls are in place.</p> <p>As part of the year end process, quarterly and monthly budget monitoring, it is expected that the budget holder is reviewing all activity and therefore holds responsibility for the reporting of their financial position and to recognise incorrect entries.</p>	<p>These arrangements have not changed from previous years. No issues have been identified from our testing.</p> <p>We are reporting this to Those Charged with Governance to bring to your attention.</p>

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK) 265)

Value for Money

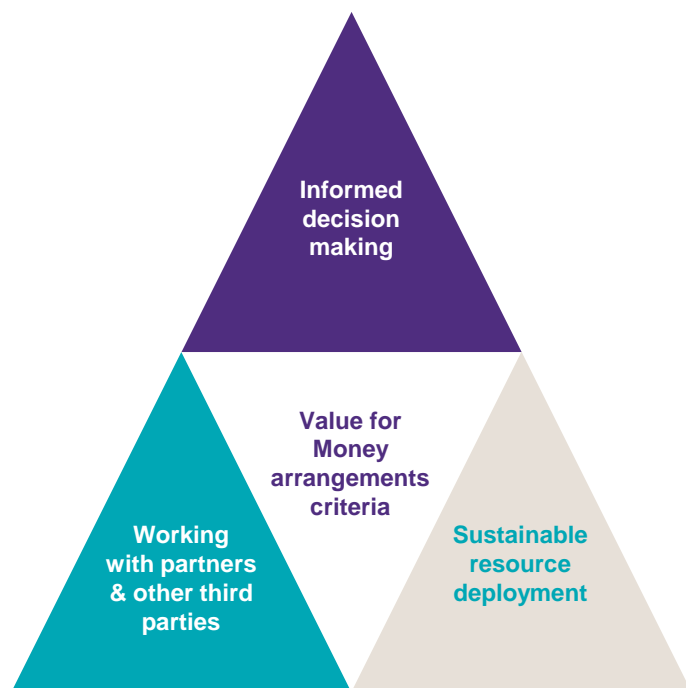
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risks to you in our Audit Plan dated 26 March 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's outturn reserves position as at 31 March 2018 including expenditure on children's social care and temporary housing expenditure
- Plans to manage children's social care and temporary housing expenditure
- Any changes made since we completed our initial risk assessment to the financing of redevelopment programmes and use of investment vehicles .

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on page 21.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found in the separate paper presented to the Audit and Risk Committee.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents. ,

1

Significant risk

Medium Term Financial Sustainability

The Council is currently forecasting a balanced budget for the two-year period to 2019/20. The Council faces difficulties in balancing its finances from 2020/21 onwards. It has identified a funding gap of £20.7m for that financial year, and acknowledges that the uncertainty with Local Government funding from 2020/21 onwards poses further difficulties in its work to deliver a balanced position

Findings

We found that the Council has:

- set a balanced budget for 2018/19 and 2019/20
- Is taking action to address the identified funding gap, including the planned use of investment and development programmes intended to boost Coventry's economic and social wellbeing
- Is putting actions in place to manage spend on looked after children and homeless accommodation whilst ensuring the quality of services provided is maintained

Conclusion

Auditor view

On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for:

- planning finances effectively to support its strategic functions
- making informed decisions.

Management response

- We continue to keep our financial sustainability under regular review.

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. The firm, its partners, senior managers, and managers have complied with the Financial Reporting Council's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Independence and ethics

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 following non-audit services were identified

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	14,020	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £14,020 in comparison to the total fee for the audit of £173,460 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Certification of 2017/18 Teachers Pension Return	4,200 (indicative)	Self-Interest (because this is a recurring fee)	The fee is negligible in comparison to the audit fee and, in particular, to Grant Thornton's turnover. It is also a fixed fee with no contingent element. These factors mitigate the perceived self-interest threat to an acceptable level.
Opportunity West Midlands Training Programme	5,500	None identified	N/A
CFO Insights	10,000	Self-Interest (because this is a recurring fee)	The fee is negligible in comparison to the audit fee and, in particular, to Grant Thornton's turnover. It is also a fixed fee with no contingent element. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors]. All services have been approved by the Audit and Procurement Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

We do not believe that the previous services detailed above will impact our independence as auditors.

Action plan


We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue	Recommendations
1	●	Lack of regular reconciliation between the payroll system and the general ledger	<p>The payroll and general ledger should be reconciled on at least a quarterly basis to mitigate the risk that the financial statements do not capture all payroll expenditure.</p> <p>Management response</p> <ul style="list-style-type: none"> We have commenced work to perform monthly reconciliations
2	●	Lack of formal reviews of information security policies and procedures	<p>Information security policies and procedures should be reviewed at planned intervals or when significant changes occur to ensure their continuing suitability, adequacy, and effectiveness.</p> <p>Management response</p> <p>The 'Acceptable Usage of ICT Facilities' policy has been re-written over the last few months and is currently going through the relevant internal review processes. It is expected that this will be launched within the next 2 months. This policy will then be used as the vehicle for 'ICT & Digital' to issue further standards, policies and procedures to the organisation. ICT & Digital are forming an ICT Governance working group to co-ordinate the delivery, development and implementation of these policies, procedures and standards across the organisation.</p> <p>'Acceptable Usage of ICT Facilities' policy published – 2 Months (Due to be completed by 31/07/18) Responsible Officer: Paul Jackson, IT Security Team Lead)</p> <p>ICT Governance group – Policy Review and Rewrites – 6 months (due to be completed by 30/11/18) Responsible Officer: Paul Jackson, IT Security Team Lead</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice


Action plan

	Assessment	Issue	Recommendations
3		Weak logical access controls within Active Directory and ResourceLink	<p>Password complexity should be consistently enforced within ResourceLink and Active Directory. Where / if possible, management should enable account lockout controls within Active Directory to address the risk of password cracking. Where / if an account lockout restriction cannot be enforced due to system limitation or other reasons, management should explore other controls designed to address the risk of password cracking within Active Directory. Alternative controls could include increased monitoring of login activity or more stringent enforcement of password length and complexity requirements.</p> <p>Management response</p> <p>Password complexity should be consistently enforced within ResourceLink and Active Directory. Where / if possible, management should enable account lockout controls within Active Directory to address the risk of password cracking. Where / if an account lockout restriction cannot be enforced due to system limitation or other reasons, management should explore other controls designed to address the risk of password cracking within Active Directory. Alternative controls could include increased monitoring of login activity or more stringent enforcement of password length and complexity requirements.</p> <p>Management Response:</p> <p>a) We have set our current Active Directory password policies in accordance with guidance issued by the National Cyber Security Centre (NCSC). Specifically they recommend against enforcing password complexity.</p> <p>b) - Active Directory accounts are locked out after 10 failed attempts (as recommended by NCSC). However rather than require manual intervention to unlock they unlock automatically after 30 minutes. We agree that having the accounts locked out until manual intervention would be more secure. Our current policy gives some protection against brute forcing of account passwords whilst also providing a positive user experience.</p> <p>We utilise a range of technologies that assist in protective monitoring of Active Directory accounts including Microsoft Advanced Threat Analytics (ATA), Microsoft Office 365 Security, Logpoint (SIEM)</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Action plan

	Assessment	Issue	Recommendations
4		Proactive reviews of logical access within Agresso and Active Directory	<p>It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).</p> <p>Management response</p> <p>We regularly review the access to the Agresso Desktop Client however this is done informally. We will look to formalise this process in the next 3 months</p> <p>We are currently removing access from all people who have not accessed the system in more than 6 months.</p> <p>We have also developed a tool to review all system access by cost centre which will be sent out to budget holders in July alongside a newly developed budget holder contract and will be repeated on an annual basis.</p> <p>Formalise desktop client access (support functions) review – by 31/07/18 Responsible Officer: Claire Maddocks, Finance Systems Accountant</p> <p>System access review – by 31/07/18 Responsible Officer: Claire Maddocks, Finance Systems Accountant</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Coventry City Council's 2016/17 financial statements, which resulted in 7 recommendations being reported in our 2016/17 Audit Findings report. *We are pleased to report that management have implemented all of our recommendations. We have followed up on the implementation of our recommendations. Any IT recommendations made in 2017/18 relate to that year's programme.*

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	The Council should ensure that all of its investment properties are revalued annually	<ul style="list-style-type: none"> The Council now subjects over 80% of investment properties to formal revaluation. The remaining assets are subject to review to ensure there have been no material changes to their value.
2	✓	Documented policies and procedures addressing security administration processes and related control requirements (such as user provisioning processes, access review requirements, and restriction of administrative access) within Agresso, ResourceLink and Active Directory should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. Once established, these documents should be periodically, formally reviewed (at least annually) to ensure their continued accuracy and appropriateness.	<ul style="list-style-type: none"> ICT convened a working party to look at the user life cycle for user access focusing primarily on Active Directory ICT Services also established a 'Logical Access Review process' for line of business systems. This will be applied to systems where ICT has responsibility for user rights and shared with business areas where these responsibilities sit outside of ICT The number of documents in place around user set ups within Finance, these have been consolidated into one document and signed off by the appropriate people..
3	✓	It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within Agresso, ResourceLink and Active Directory. These reviews should take place at a pre-defined, risk-based frequency (annually at a minimum) and should create an audit trail such that a third-party could determine when the reviews were performed, who was involved, and what access changed as a result. These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties).	<ul style="list-style-type: none"> Management undertook an access review.
4	✓	Password expiry setting should be revised and the parameter be set for all users to be forced to change their passwords frequently (e.g. every 30-60 days). In addition, password history should be enforced so that the system remembers passwords that the user has used in the recent past, so that he/she cannot simply change the password back to the original password.	<ul style="list-style-type: none"> Password expiry setting was reviewed.

Follow up of prior year recommendations

We identified the following issues in the audit of Coventry City Council's 2016/17 financial statements, which resulted in 7 recommendations being reported in our 2016/17 Audit Findings report. *We are pleased to report that management have implemented all of our recommendations./We have followed up on the implementation of our r4ecommendations. Any IT recommendations made in 2017/18 relate to that year's programme.*

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
5	✓ Management should disable generic accounts. If there is business need of the accounts, they should be re-named and their activities be logged and then subjected to regular review.	• Management disabled the generic accounts.
6	✓ Management have decided to accept a level of inappropriate segregation of duties among IT staff. The Council's risk register should be updated to document the accepted risk.	• The risk register was updated.
7	✓ Management have decided to accept a level of risk in respect of security administration rights being granted to those performing financial reporting processes or controls. The Council's risk register should be updated to document the accepted risk and compensating controls developed and implemented.	• Superceded by audit's 2017/18 review.

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Detail	Auditor recommendations	Adjusted?
Misclassification	Our request for a copy of the payroll system to general ledger reconciliation resulted in management identifying a misclassification in note 3.6 between employee benefits (£7m understated in 2017/18 and £9m understated in 2016/17) and other service expenses (overstated by the same amounts). This is because some employee spend such as that on agency staff had incorrectly been classified as other services expenses.	<p>We agreed with management's assertion that the note should be corrected.</p> <p>Management response</p> <ul style="list-style-type: none"> We amended the accounts. 	✓
Disclosure	We identified during our testing of accruals that the related accounting policy did not reflect what happens in practice at the year end (please see page 10 for further information).	<p>Auditor recommendations</p> <p>We recommended management update the accounting policy</p> <p>Management response</p> <ul style="list-style-type: none"> We updated the accounting policy. 	✓
Disclosure	We discussed with management the relevance of the inclusion of consideration of the going concern assumption in note 5.3 critical judgements given this is not an issue for the Council	<p>Auditor recommendations</p> <p>Management agreed with our view and agreed to update the note</p> <p>Management response</p> <ul style="list-style-type: none"> The Critical Judgement note has been amended. 	✓
Disclosure	A small number of disclosure changes were made – either to reflect information received after the accounts were drafted or to enhance presentation or agree to underlying records. These are all insignificant in terms of our materiality levels. Some of these changes were identified to us by management.	<p>Auditor recommendations</p> <p>The notes should be updated as discussed with management.</p> <p>Management response</p> <ul style="list-style-type: none"> We updated the financial statements. 	✓

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	173,460	173,460
Grant Certification (Housing Benefit Subsidy)	14,020	TBC
Total audit fees (excluding VAT)	£187,480	TBC

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Certification of 2017/18 Teachers Pension Return	4,200 (indicative)
Non-audit services	
• CFO Insights (Full cost for 3-year subscription is £30,000. Annual charge is £10,000)	10,000
• Opportunity West Midlands Training Programme	5,500
Total indicative	£19,700



© 2018 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.