

Independent auditor's report to the Members of Coventry City Council

Report on the Audit of the Financial Statements

Opinion

Our opinion on the financial statements is unmodified

We have audited the financial statements of Coventry City Council (the 'Authority') and its subsidiaries] (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income & Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, Notes to the Main Financial Statements, notes to the Group Accounts and the Statement of Accounting Policies including the significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.


Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance and Corporate Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance and Corporate Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

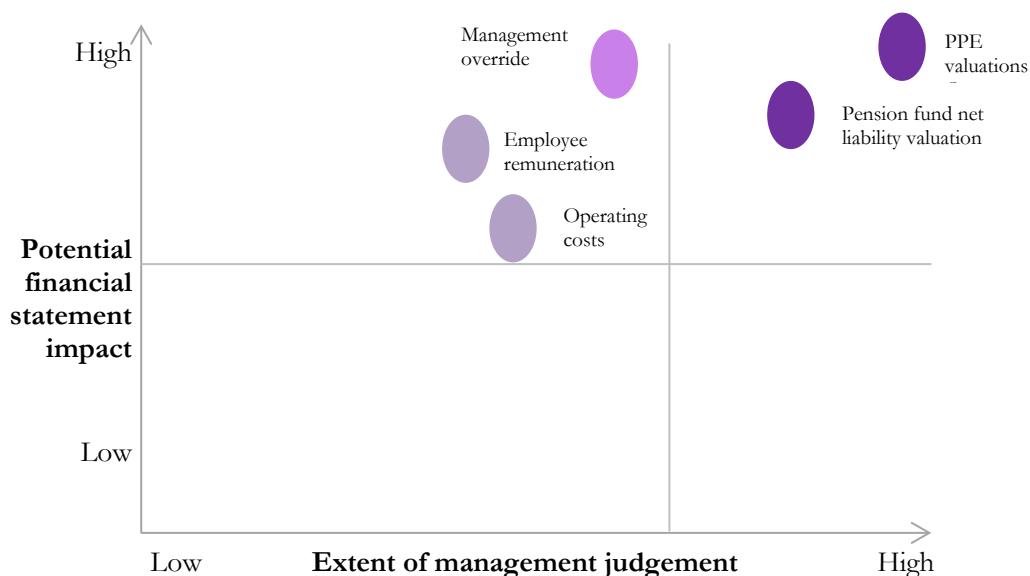


Overview of our audit approach

- Overall materiality: £12,642,000 which represents 1.8% of the group's gross expenditure;
- Key audit matters were identified as
 - Valuation of property, plant and equipment (land and buildings)
 - Valuation of pension fund net liability
- The group audit scope covered five components, of which Coventry City Council is the only significant component requiring a full scope audit. The other four components are not significant. Two of the other non significant components received a targeted audit response; and the other two non significant components were subjected to analytical audit procedures.
- A key change to the group was the acquisition of 100 per cent of the shares in a fifth component, Coombe Abbey Hotel Ltd during 2017/18. As this component was being consolidated for the first time in 2017/18 we applied targeted procedures to this component, focussing on the valuation of the hotel.

Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.



Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter – Group and Authority | How the matter was addressed in the audit – Group and Authority |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk 1 Valuation of property, plant and equipment (land and buildings) | Our audit work included, but was not restricted to: |
| <p>The Authority revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> | <ul style="list-style-type: none"> • Assessing management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • Evaluating the competence, capabilities and objectivity of the Authority's internal valuer; • Discussing with the valuer the basis on which the valuation was carried out and challenging key assumptions, including the basis of valuations of component assets; • Assessing and challenging the information used by the valuer to ensure it was robust and consistent with our understanding; • Sample testing revaluations made during the year to ensure they were input correctly into the Authority's asset register; and • Evaluating the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these are not materially different to current value. |
| <p>We therefore identified the valuation of property, plant and equipment (land and buildings) as a significant risk for the Group and Authority, which was one of the most significant assessed risks of material misstatement.</p> | <p>The Authority and Group accounting policy on the valuation of property, plant and equipment is shown in notes 5.2 and 5.7 to the financial statements and related disclosures are included in notes 3.14 and 3.18</p> |
| Key observations | <p>We concluded that the valuation basis was appropriate and that the resulting</p> |

Key Audit Matter – Group and Authority**How the matter was addressed in the audit – Group and Authority**

revaluation was appropriately accounted for.

Risk 2 Valuation of pension fund net liability

The Authority's net pension fund liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.

We therefore identified the valuation of the pension fund net liability as a significant risk for the Group and Authority, which was one of the most significant assessed risks of material misstatement.

Our audit work included, but was not restricted to:

- Gaining an understanding of the processes and controls put in place by management to ensure that the net pension fund net liability was not materially misstated and evaluating the design of the associated controls
- Evaluating the competence, capabilities and objectivity of the Authority's actuary who carried out the pension fund valuation, gaining an understanding of the basis on which the valuation was carried out; and
- Assessing the reasonableness of the significant actuarial assumptions used by management and their actuary by obtaining a view of this from our own expert and following up any areas recommended by our expert to conclude on reasonableness.
- Checking the consistency of the pension fund gross asset and gross liability figures and associated disclosures in the notes to the main financial statements with the actuarial report from the actuary

The Group and Authority accounting policy on the valuation of the pension fund liability is shown in notes 5.2 and 5.7 to the financial statements and related disclosures are included in notes 3.29 and 3.30.

Key observations

We concluded that the valuation basis was appropriate and that the net pension fund liability valuation was appropriately accounted for.

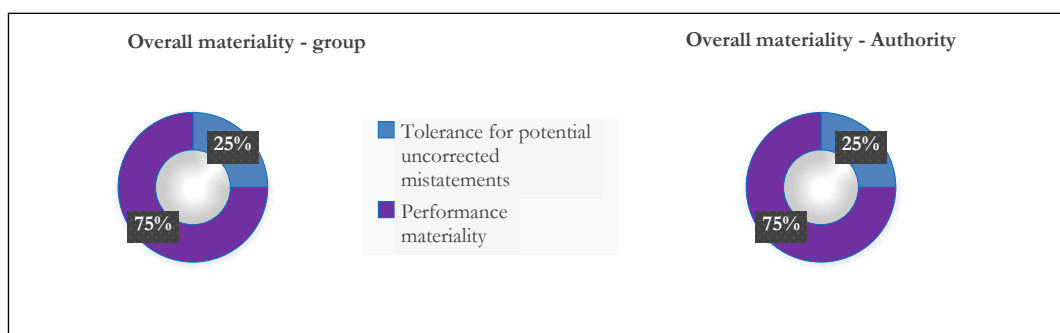
Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

Materiality was determined as follows:

| Materiality Measure | Group | Authority |
|-----------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial statements as a whole | <p>£ 132,642,000,000 which is 1.8% of the group's gross expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.</p> <p>Materiality for the current year is at the same percentage level of gross expenditure as we determined for the year ended 31 March 2017 as we did not identify any significant changes in the Group's control environment.</p> | <p>£ 12,610,000 which is 1.8% of the Authority's gross expenditure. This benchmark is considered the most appropriate because we consider users of the financial statements to be most interested in how it has expended its revenue and other funding.</p> <p>Materiality for the current year is at the same percentage level of gross expenditure as we determined for the year ended 31 March 2017 as we did not identify any significant changes in the the Authority's control environment.</p> |
| Performance materiality used to drive the extent of our testing | 75% of financial statement materiality | 75% of financial statement materiality |
| Specific materiality | Not applicable | We applied a lower level of materiality for £100,000 for the senior officer remuneration disclosures due to the public interest in these disclosures and the statutory requirement for these to be made. |
| Communication of misstatements to the Audit and Procurement Committee | We reported all misstatements above £630,500, and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | We reported all misstatements above £630,500, and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- Evaluation of identified components to assess the significance of each component and to determine the planned audit response based on a measure of materiality and significance of the component as a percentage of the group's total income, assets and liabilities. A full scope, targeted or analytical approach was taken for each component based on their relative materiality to the group and our assessment of audit risk;
- Full scope audit procedures on Coventry City Council, the significant component within the Group. The Trust's transactions represent 97% of the group's income, and 96% of its total assets;
- Gaining an understanding of and evaluating the Trust's internal controls environment including its financial and IT systems and controls;
- Targeted audit procedures on the assets of Coventry and Solihull Waste Disposal Company Ltd and assets of Coombe Abbey Hotel Ltd, which together represent 2% of the total income of the group, and 4% of its total net assets – both of these are non-significant components included in the group financial statements;
- Performing analytical procedures on the other two non-significant components included in the group financial statements: Coventry North Regeneration Limited; and North Coventry Holdings Limited. These entities in total represent 1% of the group's income.

Other information

The Director of Finance and Corporate Services is responsible for the other information. The other information comprises the information included in the Statement of Accountsⁱ set out on pages 5 to 128 other than the Main Financial Statements, Group Accounts and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to

ⁱ Amend this to reflect the actual title used for the full statement of accounts

determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Our opinion on other matter required by the Code of Audit Practice is unmodified

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Director of Finance and Corporate Services and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 15, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance and Corporate Services. The Director of Finance and Corporate Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Director of Finance and Corporate Services determines is necessary to enable the preparation

of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Corporate Services is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by group or the Authority.

The Audit and Procurement Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

We are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements of the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK). Our audit approach is a risk-based approach and is explained more fully in the 'An overview of the scope of our audit' section of our audit report.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by Public Sector Audit Appointments Ltd on 26 July 2012. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the Authority and we remain independent of the group and the Authority in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit and Procurement Committee.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority

put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statementⁱⁱ for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Signature to be added

Mark Stocks

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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Birmingham
West Midlands

B4 6AT

Date to be added