

The Audit Findings for Coventry City Council

Year ended 31 March 2019

2 September 2019



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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.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Coventry City Council ('the Council') and the preparation of the group and Council's financial statements for the 2018/19 ended 31 March 2019 for those charged with governance.

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure 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>We are also required to report whether other information published together with the audited financial statements (including the 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>	<p>We have completed the audit of the financial statements of the Council for the year ending 31 March 2019. The audit has identified an overall adjustment of £11.8m to the Total Comprehensive Income and Expenditure, with a fall from £60.1m per the draft accounts to £48.3m per the final audited financial statements. This is due to the Council making an adjustment in relation to the pensions liability as a result of the McCloud judgement. However, this adjustment to the financial statements has no impact on useable reserves or the financial resilience of the Council.</p> <p>There are no matters of which we are aware that would require modification of our audit opinion, however, as a result of our findings there are areas of work outstanding that the audit team will need to complete before we can issue an audit opinion, these include;</p> <ul style="list-style-type: none">- receipt of management representation letter; and- receipt of the final approved signed financial statements. <p>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>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<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. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised in the Value for Money section of this report.</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• To 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. We will issue our audit completion certificate on completion over the Whole of Government Accounts (WGA) audit in September in line with national deadlines.</p>

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.

Summary

Overview of the scope of our audit

This Audit Findings Report 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 and the Audit and Procurement Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. We determined
- Full scope audit procedures on Coventry City Council, the only significant component within the group, which represents 99% of group revenue expenditure.
- Targeted audit procedures on the assets of Coventry and Solihull Waste Disposal Company Ltd, the assets of Coombe Abbey Hotel Ltd and Friargate Joint Venture Project Limited which together represent 6% of its total assets.
- Performing analytical procedures on Coventry North Regeneration Limited and North Coventry Holdings Limited. These entities in total represent 1% of the group's revenues, and 0% of its total assets; 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. These outstanding items are detailed on page 3 of this report.

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.

Our assessment of materiality has been revised from planning on receipt of the draft financial statements. Below we have detailed our materiality for both the Group and Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	14,000,000	13,800,000	• The materiality has been based on 1.86% gross expenditure.
Performance materiality	10,400,000	10,400,000	• We have based performance materiality as 75% of the councils materiality
Trivial matters	690,000	690,000	• We have assessed materiality as 5% of the councils materiality
Materiality for senior officer remuneration	n/a	100,000	• We believe these disclosures are of specific interest to readers of the accounts and therefore applied a specific materiality,

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 ISA 240: presumed risk of fraud in revenue recognition</p> <p>Group and Council</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>In terms of this risk and how it relates to the Group we have also determined that the risk of fraud arising from revenue recognition in the Group can be rebutted because the revenue streams from the group components: are sourced from single lines of service provision and are made up of a large volume of non significant transactions which makes it more difficult to conceal significant fraudulent transactions.</p>
<p>2 ISA 240: management override of controls</p> <p>Group and Council</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness • gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>From the procedures carried out we have not identified any instance of management override of controls and have no significant findings to report.</p>



Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>3 Valuation of property, plant and equipment (Other Land and Buildings) Council</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written to the valuer, with follow up discussions as necessary, to confirm the basis on which the valuations were carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>When carrying out our audit procedures on school assets which were not revalued in year, we identified through our indexation calculations that there was potentially a difference between the value of school assets shown in the financial statements and those compared to our indexations. As a result the Council instructed their valuers to do a detailed revaluation of school assets in line with RICS and DfE guidance. This resulted in a £1m difference between the value in the financial statements and the valuations. This is significantly below our materiality level and the Council have made no adjustments to the financial statements.</p> <p>Conclusion</p> <p>We are satisfied that the valuation of Other Land and Buildings in Property Plant and Equipment is not materially misstated.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>Valuation of the pension fund net liability Council</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's net pension fund liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and <p>Impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for these pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits. The LGPS Scheme Advisory Board (with the consent of the Ministry of Housing, Communities and Local Government) commissioned GAD to prepare an assessment of the financial impact of the McCloud judgement on an LGPS scheme-wide basis to inform the financial reporting of participating entities. The report shows the estimates of the cost of the remedy if the LGPS underpin was found to result in unlawful age discrimination.</p> <p>As a result of the ruling we have worked with the Council to consider the implications and as a result the Council have undertaken a further actuarial assessment to include the impact of the findings. As a result of the actuarial assessment there has been a significant impact on the asset liabilities disclosed by the Council and has resulted in amendment in the financial statements of an increase in pension liability of £11.8m</p> <p>Conclusion</p> <p>We are satisfied that following the adjustment made in respect of the McCloud judgement that the pension liability is not materially misstated.</p>

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £441m	<p>Other land and buildings comprises of specialised assets such as schools, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end. The Council has engaged their internal valuations team to complete the valuation of properties as at 31 March 2019 on a five yearly cyclical basis. 21% of total assets were revalued during 2018/19.</p> <p>Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties. The total year end net book value of Other land and buildings was £441.3m, a net decrease of £29.3m from 2017/18 (£470.6m).</p>	<ul style="list-style-type: none"> Revaluation of Land and Buildings is undertaken within a 5 year rolling programme and is undertaken by qualified Council staff in accordance with the "Royal Institute of Chartered Surveyors Appraisal and Valuation Manual". The valuer will also undertake a review to determine whether the carrying amount of other assets, not due for valuation as part of the rolling programme, is consistent with their current value. A review of specialist PPE, which schools are the most significant, using the BCIS all-in Tender Price Index was applied for build costs and the Knight Frank Residential Development Land Index We have carried out a reasonable check of all other land and building asset valuations carried to Gerald Eve market indexation rates for the year and we are satisfied that the carrying amounts shown in the balance sheet are not materially misstated. Our work identified that for school assets that were not revalued in year, if indexation was applied that there could be a material difference in the school asset valuation. As a result the Council have undertaken a further revaluation of school assets to ensure that the valuation of school assets are not materially misstated. The Council identified through their valuation process which was completed under RICS and DfE guidance that there was a difference of £1m between the revised valuation and the financial statements. This is below our materiality level and the Council have chosen not to adjust for this amount. 	<p>Initial estimate</p>  <p>Revised estimate</p> 

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious



Significant findings – key judgements and estimates

Summary of management's policy	Audit Comments	Assessment																								
Net pension liability – £542m	<p>The Council's net pension liability at 31 March 2019 is £542m (PY £542m) comprising the West Midlands Pension Fund. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from (this scheme/these schemes). A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £52.1m net actuarial loss during 2018/19.</p>	<ul style="list-style-type: none"> Barnett Waddingham, an external actuary firm, provide actuarial advice to the Council via the West Midlands Pension Fund. As such, this involves providing the Council with an actuarial valuation of the pension expense calculations. The scope of the work is to undertake pension expense calculations, as instructed by the Administering Authority, for the Council, for the purposes of complying with IAS 19 (Employee Benefits) for the accounting period. PwC are employed by the NAO on behalf of external audit suppliers to local government to provide support to auditors when assessing the competence and objectivity of actuaries producing IAS 19 figures in respect of the Local Government Pension Scheme (LGPS). Barnett Waddington have carried out a roll forward approach from previous actuarial valuation to allocate assets and liabilities between employers at a triennial valuation. 																								
	<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.35 to 2.45%</td> <td>●</td> </tr> <tr> <td>CPI and Pension increase rate</td> <td>2.40%</td> <td>2.4 to 2.45%</td> <td>●</td> </tr> <tr> <td>Salary Increases</td> <td>3.90%</td> <td>2.4 to 3.9%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>20.9</td> <td>20.6 to 23.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>23.2</td> <td>23.2 to 24.8</td> <td>●</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.35 to 2.45%	●	CPI and Pension increase rate	2.40%	2.4 to 2.45%	●	Salary Increases	3.90%	2.4 to 3.9%	●	Life expectancy – Males currently aged 45 / 65	20.9	20.6 to 23.4	●	Life expectancy – Females currently aged 45 / 65	23.2	23.2 to 24.8	●	<p>Initial estimate (due to McCloud ruling)</p> <p>●</p> <p>Revised estimate</p> <p>●</p>
Assumption	Actuary Value	PwC range	Assessment																							
Discount rate	2.4%	2.35 to 2.45%	●																							
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	<ul style="list-style-type: none"> We are satisfied that the approach of the actuary and values applied are in line with PWC assumptions and that there are no significant outliers. As a result of the McCloud judicial judgement the Council have completed a revised actuarial assessment and have adjusted their financial statements to take into account the valuation, resulting in a £11.8m increase in pension liability. 																									

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Level 2/3 investments	The Council have disclosed a number of financial instruments included shareholdings in unlisted companies such as Coventry Solihull Waste Disposal Company, Birmingham Airport Holdings Ltd, Coombe Abbey Park Ltd, Friargate Joint Venture Project Limited and North Coventry Holdings Limited and long term loans to a number of companies, organisations and individuals. These financial instruments are not traded on an open exchange/market and the valuation of the investment is subjective.	<ul style="list-style-type: none"> Financial Instruments except for those at amortised costs, are carried on the Balance Sheet at fair value. For most of these assets this is based on the market price. Our audit testing has confirmed that the classification of investments at either level 2 or 3 are in line with our expectations and the Council have correctly applied the fair value hierarchy assumptions when making these decisions. The Council have appropriately relied on the valuations carried out by their treasury advisors, Arlingclose, and other experts when disclosing these amounts in the financial statements. As in prior years we have engaged our specialist internal valuation team to look at the valuation of Coventry Solihull Waste Disposal Company and Birmingham Airport Holdings Ltd and also Coombe Abbey Park Ltd this year. They have provided the audit team with assurances that the valuation of these investments are not materially misstated in the Council's financial statements. 	
Investment Properties- £218m	<p>The Council hold a range of investment properties which comprise of commercial, office units, agriculture, residential and other assets.</p> <p>The assets are included in the balance sheet are at fair value, of which the 50 with the highest values are valued annually and the remainder at least every 3 years.</p> <p>For Investment Property, valuations decrease are recognised in Surplus or Deficit on the Provision of Services.</p>	<ul style="list-style-type: none"> The Council have revalued over 80% of the their total asset base. We consider that all Investment Properties should be revalued annually. The remaining assets that have not been revalued the Council have been subject to a review to ensure that here have been no material changes to their value in accordance with IAS 40 and the CIPFA Code. We are satisfied that the valuation of these assets means that the remaining assets which have not been revalued will not result in a material misstatement. 	 As not all properties are revalued annually

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

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 2019/20 and beyond including plans to invest 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 Medium Term Financial Strategy for 2019 to 2022 which was approved by Council in October 2018

Auditor commentary

- We are satisfied there is no material uncertainty about the Council'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

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 and have not been made aware of any other 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 letter of representation has been requested from the Group and Council.
5 Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation request to banks and other bodies to confirm cash, borrowings and investment holdings. This permission was granted and the requests were sent and we have received all confirmations required.
6 Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements, although we have worked with the Council to enhance some disclosures.
7 Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none"> All information and explanations requested from management were provided. The draft financial statements were timely, of good quality and supported by good working papers.

Other responsibilities under the Code

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement 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> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception:</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 we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet complete and is planned to be completed for the submission deadline in September</p>
④ Certification of the closure of the audit	<p>We are unable to certify the closure of the 2018/19 audit of Coventry Council in the audit opinion, as detailed in Appendix E due to outstanding audit work on the Whole of Government Accounts.</p>

Value for Money

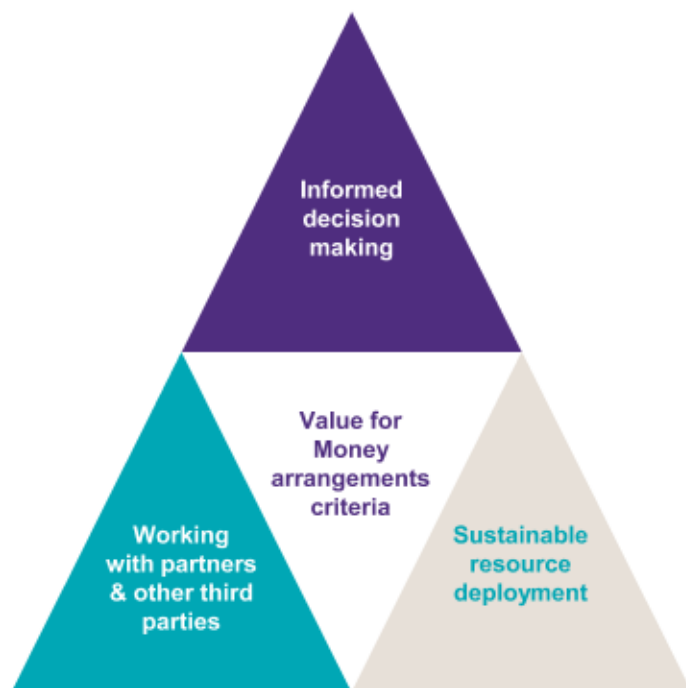
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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 as reported in our audit plan and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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 risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks 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.

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 risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Looking at the financial performance of the Council and its ability to deliver its budget and saving plans
- The impact of slippage in the capital programme to the Council's finances

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on page 16.

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.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Key findings

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

Significant risk	Findings	Conclusion
<p>1 Medium Term Financial Sustainability</p> <p>The Council is currently forecasting a balanced budget for 2019/20. The Council faces difficulties in balancing its finances from 2020/21 onwards and acknowledges that the uncertainty with Local Government funding from 2020/21 onwards poses further difficulties in its work to deliver a balanced position.</p>	<ul style="list-style-type: none"> The current medium term financial plan shows that the Council have a balanced budget for 2019/2020, which requires the delivery of £11m of savings. In 2020/21 there is a revenue gap of £16.7m and in 2021/22 a gap of £23.8m. However, these could be subject to major change depending on the outcome of the forthcoming changes in the local government finance regime which will be communicated in 2020. The Council are proactively working on ways to deliver savings across service lines and income generation to reduce the revenue budget gaps in 2020 onwards. The Councils reserves have increased by £9m in 2018/19 and now stand at £71m. These could be used to support revenue spending if there were shortfalls in savings in the medium term. 	<p>Auditor view</p> <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"> planning finances effectively to support its strategic functions making informed decisions
<p>2 Capital Programme</p> <p>The Council's 2018/19 capital outturn position is now estimated at £222m compared with the original programme reported to Cabinet in February 2018 of £262m. The actual capital payments made by the end of September were £34m. There is risk that the capital expenditure planned for the year will not be achieved.</p>	<ul style="list-style-type: none"> The final capital expenditure for the Council was £146.7m against a revised budget of £175.9m As a result of the underspend some capital projects have been deferred into 2019/20. However, there have not been projects which have been stopped as a result Although the actual capital expenditure against the original and revised budget has shown a significant slippage this has not resulted in any revenue implications for the Council. 	<p>Auditor view</p> <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"> planning finances effectively to support its strategic functions <p>We recommend that the Council look at its capital programme timescales and assess whether the timescales to deliver its programme remain appropriate given the high level of slippage in 2018/19.</p>

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, 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 Benefits Subsidy claim	16,000	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 expected to be low £16,000 (£14,020 prior year) in comparison to the total fee for the audit of £133,564 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.
Certification of 2018/19 Teachers Pension Return	4,200 (indicative)	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 £4,200 in comparison to the total fee for the audit of £133,564 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.
Certification of Innovate UK grant claims in relation to Battery Industrialisation Centre (from April 2019 for 18 months)	23,700	None identified	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 £23,700 for 18 months in comparison to the total annual audit fee for the audit of £133,564 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			
CFO Insights	10,000	Self-Interest (because this is a recurring fee) The tool provides information that will help inform decision making by informed management. The scope of our service does not include making decisions on behalf of management or recommending a particular course of action	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 £10,000 in comparison to the total fee for the audit of £133,564 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.

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.

Action plan

We have identified 3 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 2019/20 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 and risk	Recommendations
1	<p>Lack of reconciliation between the property database and asset register</p> <p>Our audit work on understanding the businesses processes and property plant equipment valuation controls it was noted that there is no formal reconciliation carried out between the Estates team's property database and the Council's Asset register.</p>	<ul style="list-style-type: none"> We recommend that a reconciliation between the Estates team property database and Council's Asset Register is carried out at least annually <p>Management response</p> <ul style="list-style-type: none"> The Council have implemented this reconciliation and have carried out for 2018/19.
2	<p>Valuation of investment properties</p> <p>We note that the Council does not value all of its investment properties on an annual basis. We do not consider that this is compliant with the CIPFA Code and brings a risk that asset values could be misstated.</p>	<ul style="list-style-type: none"> We recommend that all investment properties are valued on an annual basis. <p>Management response</p> <ul style="list-style-type: none"> The Council consider their approach to valuation of investment properties is reasonable and will not lead to material misstatement
3	<p>Valuation of PPE – School Assets</p> <p>Our work identified that for school assets that were not revalued in year, if indexation was applied that there would be a material difference in the school asset valuation. As a result the Council have undertaken a further revaluation of school assets to ensure that the valuation of school assets are not materially misstated. In undertaking this assessment the Council identified an error in its valuation methodology.</p>	<p>We recommend that the Council;</p> <ul style="list-style-type: none"> Reviews all investment methodologies to ensure that they are compliant with RICS guidance For assets not valued in year, considers the whether the value needs to be altered for movements in market prices, building costs etc.. <p>Management response</p> <ul style="list-style-type: none"> The Council have undertaken a revaluation of school assets in line with RICS and DfE guidance and have demonstrated that the valuation of assets is £1m different to what is shown in the financial statements and have concluded that this is not material to the financial statements.

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 [insert client name] Council's 2017/18 financial statements, which resulted in 4 recommendations being reported in our 2017/18 Audit Findings report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	Lack of regular reconciliation between the payroll system and the general ledger	The Council have commenced work to perform monthly reconciliations and we are satisfied that these are in place and monitored effectively.
2	✓	Lack of formal reviews of information security policies and procedures	The ICT Acceptable use Policy was updated and released in May 2019, with an expected review date of May 2020.
3	✓	Weak logical access controls within Active Directory and ResourceLink	The Active Directory password policies are in accordance with guidance issued by the National Cyber Security Centre (NCSC). Specifically they recommend against enforcing password complexity. The Council 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)
4	✓	Proactive reviews of logical access within Agresso and Active Directory	A tool has been built to perform reviews of user access and was undertaken by the Council by 31 March 2019.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000		Statement of Financial Position £' 000	
1 Pension Liability Valuation – McCloud Judgement The actuarial valuation of the pension liability for the Council had to be updated to assess the impact of the McCloud judicial judgement. This has resulted in a material adjustment to the pension liability.	Dr Cost of Services	11,812	Cr Unusable Reserves	11,812
	Cr Pension Liability	11,812	Dr Pension Reserve	11,812
2 Finance and Investment Income* There was financial instrument related revaluation gain that had been incorrectly coded in the financial statements	Cr Finance and Investment Income	537	n/a	
	Dr Revaluation of Available for Sale Asset	537		
3 Classification of Asset * An investment property was incorrectly classified as an investment property when it should have been included in property plant and equipment.	n/a		Cr Investment Property	3,108
			Dr Property Plant and Equipment	3,108
4 Financial Instruments Revaluation Reserve – Group Accounts* Under IFRS 9 the Available For Sale (AFS) Financial Assets category was removed as a reportable class of financial instruments. The Council applied IFRS 9 in the single entity accounts, however in the group accounts an unusable reserve was carried forward named "Available For Sale" reserve.	n/a		Cr Group Available For Sale Reserve	72,407
			Cr Financial Instruments Revaluation Reserve	7,085
			Dr Financial Instruments Adjustment Account	79,492
Overall impact		£11,812		£11,812

* Note – overall impact of these errors are £0

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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 3.6 Income and Expenditure Analysis consistency with CIES	<p>There was an inconsistency between the CIES and note 3.6 Income and Expenditure Analysis of £1,235k in relation to government grants which were omitted from the disclosure note</p> <p>The employee benefit expenses was stated as £288,099k however this should have been £285,700k to be consistent with the CIES</p>	<ul style="list-style-type: none"> To update the disclosure Note 3.6 so that it is consistent with what is reported in the CIES 	✓
Note 3.6 Income and Expenditure Analysis 17/18 - Restatement	<p>The Council have restated the 2017/18 comparator figures in the note, however, have not explained why the amounts are restated,</p>	<ul style="list-style-type: none"> To include an explanation of the restatement of the 17/18 comparator figures in Note 3.6 	✓
Note 3.15 Property Plant and Equipment – Prior year comparators	<p>There were two comparator figures from the 2017/18 accounts which were incorrectly stated in the financial statements and therefore a difference of £623k compared to prior year financial statements</p>	<ul style="list-style-type: none"> To revise the comparator figures in the financial statements so they are consistent with the 2017/18 financial statements 	✓
Note 3.34 Financial Instruments	<p>There were some inconsistencies between what was reported in the financials instruments notes and other parts of the financial statements</p>	<ul style="list-style-type: none"> To ensure that the financial instruments note was consistent with other parts of the financial statements 	✓
Group Cash Flow	<p>There was an inconsistency between the cash balance on the balance sheet and the group cash flow statement</p>	<ul style="list-style-type: none"> To adjust the group cash flow so that it reconciles with the cash balance on the balance sheet. 	✓
Note 4.9 Notes to Group Balance Sheet	<p>There were some errors in the narrative which meant that the original investment amounts were not accurately shown for CSWDC and CAPL</p>	<ul style="list-style-type: none"> To adjust the narrative in the notes to reflect investments appropriately 	✓
Disclosure enhancements	<p>As part of our review of the financial statements we have noted some areas where further disclosures were required in existing notes or there were changes in narrative required to reflect CIPFA code changes for the year ending 31 March 2019</p>	<ul style="list-style-type: none"> To review disclosure notes and include further narrative and changes in accordance with the CIPFA Code 	✓

Audit Adjustments

Impact of Unadjusted misstatements

All unadjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<p>1 PPE Valuation – School Assets</p> <p>Our review of the valuation of school assets using the BCIS indices indicated that for school assets which were not valued in year that there was a possibility of material movement (£14.5m) in their valuation based on indexation uplift. We use these indices to track the potential movement in asset values between valuations. As a result the Council have done a further valuation on these assets under RICS and DfE guidance and noted a non material difference.</p> <p>Given that the resulting difference is significantly below our materiality we are satisfied that an adjustment is not required to the financial statements to reflect this. We have asked the Council to include this non adjustment in the management letter of representation which they provided to us in support of the production of the financial statements.</p>		<p>Cr Other Land and Buildings 1,045</p> <p>Dr Revaluation Reserve 1,045</p>	

Fees

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

Audit Fees

	2017/18 Final Fee	2018/19 Proposed fee	2018/19 Final fee
Council Audit	£173,460	£133,564	£150,064
Total audit fees (excluding VAT)	£173,460	£133,564	£150,064

The final audit fee represents a year on year reduction of £19,396.

The proposed audit fee reconciles to Note 3.12 of the financial statements. As part of our audit procedures we have had to carry out further procedures which were not included in the proposed fee for the 2018/19 audit, these are listed below, and are subject to PSAA approval.

Required Additional Audit Work	Description of Work Required	Proposed fee
Enhanced regulatory requirements in respect of public interest entity audits	As the council holds listed debt, and is therefore defined in auditing standards as a public interest entity, we are required to undertake additional audit procedures including the production of an Extended Audit Report.	£4,000
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements.	£3,000
Pensions – IAS 19	The Financial Reporting Council has highlighted the need for more in depth work by audit firms in respect of IAS 19. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	£3,000
PPE Valuation – work of experts	The Financial Reporting Council has highlighted the need for more in depth work by audit firms in respect of PPE. We have increased the volume and scope of our audit work to reflect this.	£3,000
Specialist valuation of Coombe Abbey	We have engaged expert valuers for the first time to confirm the Council's valuation of Coombe Abbey to ensure it is fairly recognised at Fair Value in the Council's accounts and there are no material differences between our valuation and the Council's valuation.	£2,500
Assessing the impact of the potential adjustments to the financial statements in relation School Valuations	The Council undertook two revaluations of its school assets. It determined that the valuations for 2017/18 and 2018/19 were not materially misstated. We undertook additional work to assess these valuations.	£1,000
Total audit fees (excluding VAT)		£16,500

Fees (continued)

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
Certification of Housing Benefit Subsidy claim	£16,000
Certification of Teachers Pension Return	£4,200
Certification of Innovate UK Grant for Battery Industrialisation centre (from April 2019 for 18 months)	£23,700
CFO Insights	£10,000
	£53,900



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