This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Coventry City Council audit plan

Year ending 31 March 2024

Coventry City Council

7 November 2024

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? in March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters - continued

Government proposals around the backstop

On 30 July 2024, the Minister of State for Local Government and English Devolution, Jim McMahon, provided the following written statement to Parliament [Written statements - Written questions, answers and statements - UK Parliament] This confirm the government's intention to introduce a backstop date for English local authority audits up to 2022/23 of 13 December 2024.

As you are aware, we have not yet signed the accounts audits for the years 2020/21, 2021/22, or 2022/23. This delay is due to complexities and errors in the draft 2019/20 accounts, particularly regarding property, plant, and equipment valuations, as well as group accounting. These issues resulted in significant delays in completing the 2019/20 audit and had a consequential impact on the draft 2020/21 accounts. As a result, a the draft 2020/21 accounts were not certified for issue until 28 March 2024. Subsequently, the draft accounts for 2021/22 were certified for issue on 9 August 2024, and the draft accounts for 2022/23 on 12 September 2024.

It is important to note that our review of the Council's arrangements for securing value for money over this period is up to date. We issued our 2022/23 Interim Auditor's Annual Report on Coventry City Council in March 2024.

On 4 September 2024, we wrote to the Chair of the Audit and Procurement Committee to agree that there will not be sufficient time to conclude our work in advance of the 13 December 2024 backstop deadline. As a consequence of this, the authority's accounts for years up to 2022/23 have been backstopped and a disclaimer of opinion will be issued by 13 December 2024.

The government has set out its intention that from 2023/24, auditors should work with local authorities to begin the process of recovery. A backstop date for 2023/24 has been proposed of 28 February 2025, and a date for 2024/25 audits of 27 February 2026.

Key matters - continued

Government proposals around the backstop

Our intention is that over time we will re-build assurance in respect of prior years across all backstopped audits, taking account of guidance from the National Audit Office and the Financial Reporting Council. For 2023/24, we will focus your audit on the following areas in advance of the backstop date.

- Risk assessment and evaluation of the control environment for 2023/24 including ISA 315 assessment
- Audit of closing balances as at 31 March 2024
- Audit of income and expenditure and movements within financial year 2023/24 and associated cut off testing
- Testing of journals within 2023/24
- Testing of Movement of Reserves statements and other primary statements (within the constraints that we will not have opening balance assurance)
- Financial statements disclosure
- Recognising the sensitivity of cash, including the opening cash position as at 1 April 2023

We will continue the process of recovery during 2024/25 and ongoing years.

Key matters - continued

Group audit

The Council's group is becoming increasingly complex and the structure and components of the group have changed significantly since the last year of audit in 2019/20. Refer to pages 10 and 20.

As discussed on page 4, the 2019/20 audit was delayed partly due to significant issues with accounting for the group. This is therefore a significant risk area for the audit. Refer to page 18.

As an additional development since our 2019/20 audit, the Financial Reporting Council's Revised Ethical Standard 2019 became effective from 15 March 2020 and has implications on the reliance we, as group auditors, are able to place on the audit work carried out by the auditors of the group's companies (the component auditors). The Ethical Standard contains certain additional requirements or prohibitions that apply only in the case for public interest entities (PIEs).

As a PIE engagement, our audit of Coventry City Council and group is affected by these standards. In practice, this means that due to the non-audit services provided by the component auditors to the companies of the group, we are no longer able to place reliance on their work. Instead, for the duration of time that the prohibited services are being provided, we must carry out our own audit procedures on areas that fall within the scope of the group audit. These procedures are detailed on pages 20-26.

Equal Pay Claims

The Council has received claims in respect of Equal Pay. Due to the process being currently at an early stage, it is management's view that there is no reliable assessment of the validity, potential success or value of any claims at this stage.

However, equal pay claims can have a highly material impact on a Council's expenditure and balance sheet.

As such we have recognised a risk of material misstatement in our audit plan for 2023/24 and designed audit procedures to address the risk- refer to page 19.

Key matters - continued

Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan has been agreed with the Director of Finance and Resources.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Director of Finance Quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit and Procurement Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will review progress against previously agreed recommendations in response to matters identified through previous audit work.
- We will continue to provide you and your Audit and Procurement Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit and Procurement Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Key matters - continued

Our Responses (continued)

- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There are rebuttable presumed risks that revenue and expenditure may be misstated due to the improper recognition of revenue. We have rebutted these risks for 2023/24– refer to pages 13 and 14.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Coventry City Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body.

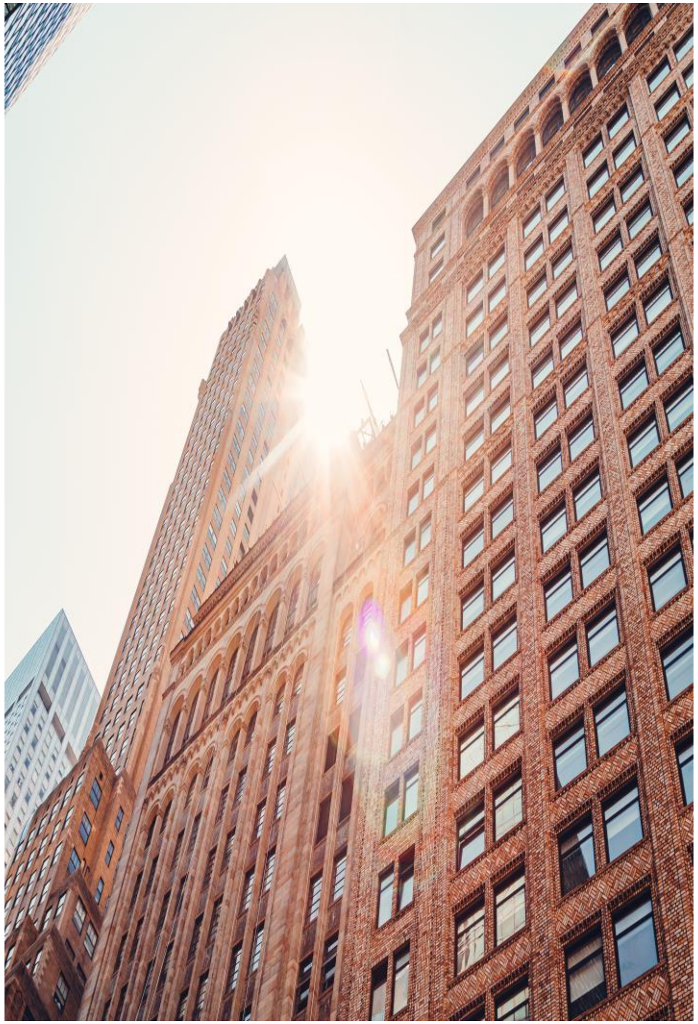
Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Coventry City Council. We draw your attention to these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Procurement Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit and Procurement Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

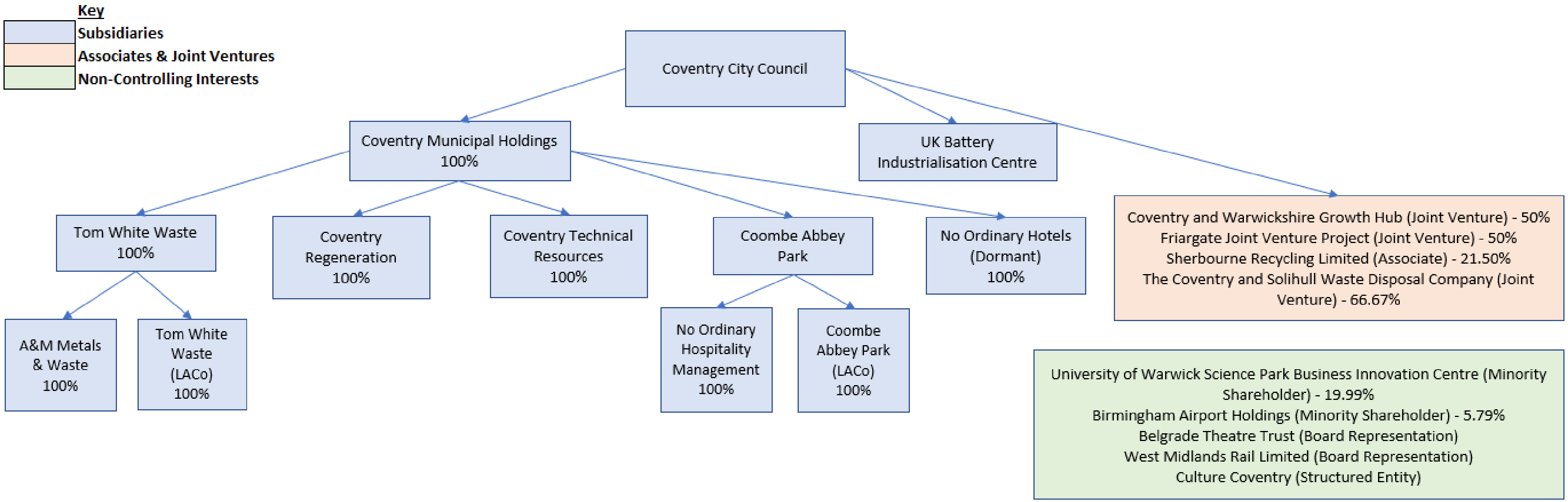
Our audit approach is based on a thorough understanding of the Council's business and is risk based.



Introduction and headlines

Group Audit

The Council has the following group structure:



The Council is required to prepare group financial statements that consolidate the financial information of its material subsidiaries, associates and joint ventures.

Non-controlling interests are excluded from consolidation, on the basis that the Council does not exert control or significant influence over these entities, as defined by accounting standards.

Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Fraud in revenue recognition – presumed risk per ISA (UK) 240 – rebutted, see page 13
- Fraud in expenditure recognition – presumed risk per Public Audit Forum – Practice Note 10 – rebutted, see page 14
- Management override of controls - presumed risk per ISA (UK) 240
- Valuation of land and buildings and investment properties
- Valuation of pensions net asset/liability
- Accounting for the group and the valuation of long-term investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Other risks

Other risks identified for the 2023/24 audit:

- Liabilities for equal pay claims

Introduction and headlines

Materiality

We have determined planning materiality to be £11.7m for the group and £11.0m for the Council, which equates to 1.25% of your prior year unaudited gross expenditure. We will update our materiality determination upon receipt of the draft gross expenditure total for 2023/24. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance.

As part of our risk assessment, we have considered the impact of having three periods of unaudited accounts 2020/21-2022/23, as well as the level and value of errors identified in the last audited accounts, 2019/20.

We are also required to set a performance materiality level. This is an amount less than materiality, for the purposes of assessing risks of material misstatement and for determining the nature, timing and extent of audit procedures. Using performance materiality reduces the probability that aggregated misstatements exceed materiality. We have determined performance materiality of £7.605m for the group and £7.150m for the Council, which equates to 65% of planning materiality.

Clearly trivial has been set at £0.585m for the group and £0.550m for the Council.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following risks of significant weakness:

- Governance- Risk of significant weakness identified for 2023/24, due to delays in publication of accounts
- Financial sustainability- Risk of significant weakness identified for 2023/24 on the underlying deficit; future deficits expected; and the adequacy of reserves available to cover budget shortfalls.

We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Audit logistics

Our financial statements planning visit took place in September 2024 and our final visit will commence in December 2024. Our VfM work was carried out from July to October 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

Our proposed fee for the audit will be £484,749, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We appreciate that if a full audit is not completed, an adjustment will be needed in terms of fees. PSAA will be making determinations on this in due course.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification
Presumed risk of fraud in revenue recognition ISA (UK) 240	Not applicable- risk rebutted	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: • 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 Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for Coventry City Council. As set out on pages 20-26, there are no other individually significant components in the group, and therefore the risk is also rebutted for other group entities. Where revenues are material in other group entities, specified audit procedures will be carried out as set out on those pages.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification
Risk of fraud related to expenditure recognition Public Audit Forum- Practice Note 10	Not applicable- risk rebutted	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period) Having considered the expenditure streams of Coventry City Council, and on the same basis as that set out above for revenue, we have determined that there is no significant risk of material misstatement arising from improper expenditure recognition. As set out on pages 20-26, there are no other individually significant components in the group, and therefore the risk is also rebutted for other group entities. Where revenues are material in other group entities, specified audit procedures will be carried out as set out on those pages.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls ISA (UK) 240	Group and Council	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. We therefore identified management override of controls - in particular through journals, group consolidation adjustments, management estimates, and transactions outside the normal course of business - as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals and group consolidation adjustments • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • test significant consolidation adjustments made to arrive at group account balances • gain an understanding of the accounting estimates applied and critical judgements made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings and investment properties	Group and Council	The Council revalues its land and buildings as a minimum on a rolling five-yearly basis. Interim reviews are carried out: If the value of an asset class is projected to materially change during the period since the last Code and then further valuations are instructed. The Council also hold a range of investment properties which comprise of commercial units, office units, agricultural assets, residential and other assets. These assets are included in the balance sheet at fair value, and the Council revalues its investment properties each year. These valuations represent a significant estimate by management in the financial statements due to the size of the balances involved (£605m land & buildings; £323m investment properties as at 31 March 2023), and the sensitivity of this estimate to changes in key assumptions. Within the other group entities listed on pages 20-26, further material land and buildings are held. Under FRS 102, (the accounting basis on which the other group entities prepare their financial statements) these assets are held at depreciated historical cost. In preparation of the group accounts, the Council is therefore required to obtain a valuation compliant with the IFRS-based CIPFA Code and make appropriate consolidation adjustments for the asset balance and revaluation movements. We therefore identified valuation of land, buildings, and investment properties, particularly revaluations and impairments, as a significant risk of material misstatement, and a key audit matter.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuer's reports and the assumptions that underpin the valuations • test revaluations made during the year to see if they have been input correctly into the Authority's asset register • evaluate 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 at year end

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension net asset/ liability	Group and Council	The pensions net asset/liability, as reflected in the balance sheets of both the Council and group as the "net defined benefit asset/liability" represents a significant estimate in the financial statements due to the the sensitivity of the estimate to changes in key assumptions, and due to the size of the balance and remeasurements involved (£614.7m net liability at 31 March 2022 reducing to £25.2m net liability at 31 March 2023). For 2023/24, the Council's actuaries have determined a net surplus on the pension fund for the first time. In this situation, further accounting consideration is required under IFRIC 14 in relation to asset ceiling caps. Refer to pages 47-48 for more detail. The methods applied in the calculation of the IAS19 estimate are routine and commonly applied by all actuarial firms in line with the requirements of the CIPFA Code. We have therefore concluded that there is not a significant risk of material misstatement due to methods and models used. The source data used by the actuary to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increases, and life expectancy) can have a significant impact on the estimated balance. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in the actuarial calculation, and due to the application of IFRIC 14 for pension funds in surplus.	We will: • update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (the actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test 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 • undertake 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 • obtain assurances from the auditor of West Midlands Pension Fund (WMPF) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the WMPF and the fund assets valuation in the WMPF financial statements. • Test the accounting for the fund surplus and application of IFRIC 14.

Significant risks identified - continued

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Accounting for the Group and the valuation of Long-Term Investments	Group and Council	Over recent years, the Council has increased the number and value of interests it has in associated companies. In addition to the companies listed on pages 20-26 which are assessed as forming part of the Council's group, the Council also has a material interest in Birmingham Airport Holdings Limited. In its single-entity accounts, the Council has elected to report the value of these long-term investments at the balance sheet date at Fair Value. This is allowable under the CIPFA Code, which permits either Fair Value accounting or historical cost accounting. The Fair Value method requires a valuation of each company at the balance sheet date. The Council instruct external experts to, in some cases, determine appropriate valuations, or in other cases, to issue an opinion on the Council's in-house determination. The valuation of long-term investments is considered a significant estimate due to the size of the balance involved (£122.3m at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions For the group accounts, the Council is required to assess the level of control or significant influence it has over its company interests and apply the appropriate accounting treatment. For companies where the Council has control, these are consolidated into the group accounts line-by-line; for entities where there is joint control or significant influence, the interest is accounted for using the equity method. The Council has both types of interest. Group accounting has further complexities where the accounting policies and accounting frameworks are different to those of the group. This is the case for the majority of the Council's interests. The Council must apply adjustments to the financial information reported by the group entities prior to inclusion in the group accounts. We therefore identified valuation of the Council's long-term investments; and the accounting for the group as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter	To address the risk of group accounting we will: • update our understanding of the processes and controls put in place by management to ensure that group accounting is not materially misstated and evaluate the design of the associated controls • review the Council's assessment of its group boundary, that is the entities included within the Council's group accounts • test the consolidation adjustments made in producing the group accounts for completeness and accuracy To address the risk relating to the valuation of long-term investments: • update our understanding of the processes and controls put in place by management to ensure that the long-term investments are not materially misstated and evaluate the design of the associated controls • evaluate the instructions issued by management to their management experts for this estimate and the scope of the experts' work • assess the competence, capabilities and objectivity of the experts who carried out the valuations • assess the accuracy and completeness of the information provided by the Authority to the experts to estimate the fair values • engage our own valuer to assess the instructions issued by the Council to their valuers, the scope of the Council's valuers' reports and the assumptions that underpin the valuations • test the consistency of the values and disclosures in the notes to the core financial statements with the valuation report from the experts

Other risks identified

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Liabilities for Equal Pay Claims	Group and Council	Equal pay claims can have a highly material impact on a Council's expenditure and balance sheet. If it becomes probable that the claims will settled in the claimant's favour a charge to revenue is made and a liability in the form of a provision is recognised on the balance sheet. Where there is a possibility greater than remote, but it is judged to be improbable that claims may be settled in the claimant's favour, a contingent liability disclosure is required instead. The Council has received claims in respect of Equal Pay. Due to the process being currently at an early stage, it's management's view that there is no reliable assessment of the validity, potential success or value of any claims at this stage.	We will: • continue to discuss developments in relation to equal pay claims with management and the Audit and Procurement Committee • review management's assessment of the probability of the claims being successful and the estimation of any associated liabilities • test the basis for related accounting treatment and disclosures • consider all relevant events up to the point of signing our audit opinion and, if significant events are identified, consider management's judgement as to whether these are adjusting events or non adjusting events.

Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Key changes within the group since the 2019/20 audit:

New companies:

- Coventry Municipal Holdings Limited (CMH) was incorporated in October 2021. 100% of shares are owned by the Council. The following companies were brought under the CMH umbrella in November 2021: Tom White Waste Limited & group; Coombe Abbey Park Limited & group; Coventry Regeneration Limited; Coventry Technical Resources Limited; and No Ordinary Hotels Limited (dormant company).
- Tom White Waste (LACO) Limited was incorporated in October 2021 under immediate parent company Tom White Waste Limited.
- Coombe Abbey Park (LACO) Limited was incorporated in April 2021 under immediate parent company Coombe Abbey Park Limited.
- No Ordinary Hospitality Management Limited was incorporated in April 2021 under immediate parent company Coombe Abbey Park Limited.
- Sherbourne Recycling Limited was incorporated in February 2021 and is jointly owned by eight local authorities across the West Midlands. The Council has a 21.5% share.
- The Council acquired 50% shares in Coventry and Warwickshire Growth Hub Limited in November 2023, along with Warwickshire County Council.

Company name changes:

- Coventry North Regeneration Limited became Coventry Regeneration Limited in November 2021
- North Coventry Holdings Limited became Coventry Technical Resources Limited in October 2021

Group audit scope and risk assessment

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Coventry City Council	Yes	Audit of the financial information of the component using component materiality	Risks set out on pages 13-19 of this report.	Full scope audit performed by Grant Thornton UK LLP
UK Battery Industrialisation Centre LTD	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	None at this stage.	Specified audit procedures relating to risks of material misstatement of the group financial statements. We will confirm the specific audit procedures upon receipt of the group consolidated financial statements for 23/24.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Group audit scope and risk assessment

Component	Individually Significant ?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Coventry Municipal Holdings Limited (CMH) (company only- CMH group is considered below)	No	Analytical procedures at group level	n/a	We would usually categorise this response as 'Analytical procedures at group level.' However, we are currently evaluating the appropriateness of this categorisation due to the lack of assurance over opening balances. As a result, we are still determining the approach to testing this component and will make a decision after receiving the 23/24 draft consolidated accounts.
Tom White Waste Limited & group (under the CMH umbrella)	No	Analytical procedures at group level	n/a	We would usually categorise this response as 'Analytical procedures at group level.' However, we are currently evaluating the appropriateness of this categorisation due to the lack of assurance over opening balances. As a result, we are still determining the approach to testing this component and will make a decision after receiving the 23/24 draft consolidated accounts.

Group audit scope and risk assessment

Component	Individually Significant ?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Coombe Abbey Park Limited & group (under the CMH umbrella)	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	None at this stage.	Specified audit procedures relating to risks of material misstatement of the group financial statements. We will confirm the specific audit procedures upon receipt of the group consolidated financial statements for 23/24.
Coventry Regeneratio n Limited (under the CMH umbrella)	No	Analytical procedures at group level	n/a	We would usually categorise this response as 'Analytical procedures at group level.' However, we are currently evaluating the appropriateness of this categorisation due to the lack of assurance over opening balances. As a result, we are still determining the approach to testing this component and will make a decision after receiving the 23/24 draft consolidated accounts

Group audit scope and risk assessment

Component	Individually Significant ?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Coventry Technical Resources Limited (under the CMH umbrella)	No	Analytical procedures at group level	n/a	We would usually categorise this response as 'Analytical procedures at group level.' However, we are currently evaluating the appropriateness of this categorisation due to the lack of assurance over opening balances. As a result, we are still determining the approach to testing this component and will make a decision after receiving the 23/24 draft consolidated accounts
No Ordinary Hotels Limited (Dormant)	No	Analytical procedures at group level	n/a	We would usually categorise this response as 'Analytical procedures at group level.' However, we are currently evaluating the appropriateness of this categorisation due to the lack of assurance over opening balances. As a result, we are still determining the approach to testing this component and will make a decision after receiving the 23/24 draft consolidated accounts

Group audit scope and risk assessment

Component	Individually Significant ?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
The Coventry and Solihull Waste Disposal Company Limited	No	Specified audit procedures relating to risks of material misstatement of the group financial statements	None at this stage.	We anticipate that we will need to perform specified audit procedures relating to risks of material misstatement of the group financial statements in relation to this entity. We will confirm whether this is the case upon receipt of the group consolidated financial statements for 23/24.
Coventry and Warwickshire Growth Hub Limited	No	Analytical procedures at group level	n/a	We would usually categorise this response as 'Analytical procedures at group level.' However, we are currently evaluating the appropriateness of this categorisation due to the lack of assurance over opening balances. As a result, we are still determining the approach to testing this component and will make a decision after receiving the 23/24 draft consolidated accounts

Group audit scope and risk assessment

Component	Individually Significant ?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Friargate JV Project Limited	No	Analytical procedures at group level	n/a	We would usually categorise this response as 'Analytical procedures at group level.' However, we are currently evaluating the appropriateness of this categorisation due to the lack of assurance over opening balances. As a result, we are still determining the approach to testing this component and will make a decision after receiving the 23/24 draft consolidated accounts
Sherbourne Recycling Limited	No	Analytical procedures at group level	n/a	We would usually categorise this response as 'Analytical procedures at group level.' However, we are currently evaluating the appropriateness of this categorisation due to the lack of assurance over opening balances. As a result, we are still determining the approach to testing this component and will make a decision after receiving the 23/24 draft consolidated accounts

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your financial statements, consider and decide upon any objections received in relation to the financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act;
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit and 2020/21 partial audit of the Council and group's financial statements, which resulted in five recommendations being reported in our Audit Findings Reports. We have followed up on the implementation of our recommendations and 1 is still to be addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The Council's group is gaining complexity and appropriately accounting for activity and balances independently from both a single entity and group perspective is increasingly challenging and at risk of material error. We recommended that management strengthens the capacity within its finance team and implements standardised practices and procedures to appropriately account for the impact of the evolving activity within the group. Including, but not limited to: issuing group instructions for year-end reporting; recording group transactions and balances on ledger; maintaining a fixed asset register for group PPE; adopting a suitable valuation schedule and engaging experts to provide valuations for group property and for the valuation of the long-term investments in companies. We recommend management looks to harmonise the year-end reporting dates and accounting frameworks of its subsidiaries and joint ventures and establish an agreed-upon reporting structure and timetable with those bodies to ensure timely receipt of required information.	**Management Response:** 'The Council has strengthened the capacity within the finance team, including the appointment of a lead accountant with specific responsibility for Group Accounting. The capacity within the group was also strengthened with the incorporation of Coventry Municipal Holdings in October 2021. CMH was set up to manage the Council's investments and employs a Finance Director to oversee the activities of the group. Considerable progress has been made to standardise and improve group accounting procedures, including issuing group instructions for financial reporting, developing group asset registers and engaging valuation experts to assess specific PPE assets held within the group where required to align with the CIPFA CoP. The year end reporting dates have been harmonised since March 2023, after the CMH group and UKBIC changed from their previous December year end dates. All companies consolidated into the Council's group accounts now have a March year end. The CMH group has also transitioned to IFRS accounting to improve alignment with the Council. Where companies report under FRS 102, as is the case with CSWDC and FJVP, the Council reviews any adjustments required to align with the CIPFA CoP. The Council is aware that adjustments may still be required to IFRS accounts to comply with the specific requirements of the CIPFA CoP. The Council continues to use external experts to produce the long term investment valuations for its equity interests in companies. The Council established Coventry Shareholder Committee, which first met in March 2022, to oversee company performance and budget plans.' We will consider the progress as part of our audit.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	The valuation of property assets does not accurately reflect the usage and proposed usage of properties held by the Council leading to material error in valuation . We recommended that management should regularly reconcile the asset register with estate records held by the property team. We also recommended that management carry out a regular review of all relevant Local Plans identified as having an impact on local areas in which the Council owns land and ensure this is considered in the valuation of affected land assets.	**Management response:** 'The Council has implemented a process to reconcile information held within its property databases with the data held in the fixed asset module of its financial system. Any differences are investigated and any necessary changes are actioned. A review of local plans for Coventry City Council and relevant Warwickshire authorities has been undertaken as part of the annual valuation process.' We will consider the progress as part of our audit.
✓	The valuation of property assets incorporate a wide range of assumptions, source data and judgements.. Errors in these variables can and have resulted in materially misstated valuations of property assets. We recommended that management conducts a thorough review of the valuations provided by their valuations expert to ensure that the source data used by the valuer is factually accurate and assumptions and judgements are appropriate.	**Management response:** 'The Council has created a data sharing facility to enable the efficient sharing of information between CCC and the external valuers. Asset information is provided in a structured manner and Council's external valuers are asked to use this as part of the official instruction. This ensures that there is no ambiguity about where to find the information and what information should be used. Additional staff resource has been employed within the property team to undertake a check and challenge of the valuations. This included: 1. Reviewing the accuracy of the transfer of information provided to the valuation working papers ensuring it matched the data provided by the Council's property asset management system (Qube) and/or the operational team. 2. Querying the yields and valuation rates adopted to ensure they were appropriate. 3. Checking the valuations accounted for significant known factors impacting the capital value. 4. Reviewing and querying the valuation methodology adopted to ensure it is appropriate.' We will consider the progress as part of our audit.

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	During a review of the control access performed by the IT audit team for the 2020/21 audit, it was identified that there were a small number of finance staff who had privileged administrative access rights within Business World. This presented a heightened opportunity risk for fraud and required substantial work to be performed by the engagement team to gain reasonable assurance over this area. We recommended that the Council reviews the administrative access allowed to finance staff through Business World. The Council should ensure that adequate controls are in place to ensure segregation of duties and to prevent fraud.	**Management response:** 'In 2022/23 we noted that three finance users with administrative access still had their access enabled. Further we noted that seven finance team members had access to amend the batch schedule in Business World. In 2023/24 we confirmed the findings had been remediated.' We will consider the progress as part of our audit.
New recommendation – will be followed up in due course	Lack of journal authorisation control: We found that there is no authorisation process for journal postings in the finance system. The control environment relies on budgetary processes (i.e. management account review) and access controls, which do not fully compensate for the lack of authorisation controls. This presented a heightened opportunity risk for fraud. We recommended the Council introduce an automated authorisation control designed to ensure segregation of duty with regard to journal postings. We recommended authorisation privileges are limited to appropriate finance managers	**Management response:** 'This recommendation has been made in the 2020/21 Audit Findings Report that is being taken to the Audit and Procurement Committee alongside the 2023/24 Audit Plan. The Council will consider this recommendation in due course.'

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.

Description	Planned audit procedures
Determination	
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the financial year. Materiality at the planning stage of our audit is £11.7m for the group and £11.0m for the Council, which equates to 1.25% of your prior year unaudited gross expenditure.	We determine planning materiality in order to: • establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; • assist in establishing the scope of our audit engagement and audit tests; • determine sample sizes and • assist in evaluating the effect of known and likely misstatements in the financial statements.
Other factors	
An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. • We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We will consider the materiality of any errors identified in these disclosures on a case-by-case basis.

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.

Description	Planned audit procedures
Reassessment of materiality Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. For example, we will reconsider materiality upon receipt of your draft 2023/24 accounts.
Other communications relating to materiality we will report to the Audit and Procurement Committee Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Procurement Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit and Procurement Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.585m for the group and £0.550mn for the Council. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Procurement Committee to assist it in fulfilling its governance responsibilities.

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.

	Amount (£)	Qualitative factors considered
Materiality for the Council's financial statements	£11,000,000	This equates to 1.25% of the gross expenditure of the Council. We consider gross expenditure to be the most appropriate benchmark given the level of user interest in spend incurred. We have a applied a low percentage (1.25%) to the benchmark to reflect increased interest in the accounts due to the previous three years' accounts being unaudited and to reflect that the Council is a Public Interest Entity (UK PIE), due to its listed debt.
Materiality for specific transactions, balances or disclosures - senior officer remuneration	N/A	The materiality of any errors identified will be considered on a case-by-case basis due to the sensitive nature of these notes and user interest in this area.
Group materiality	£11,700,000	This equates to 1.25% of the gross expenditure of the group. We consider gross expenditure to be the most appropriate benchmark given the level of user interest in spend incurred. We have a applied a low percentage (1.25%) to the benchmark to reflect increased interest in the accounts due to the previous three years' accounts being unaudited and to reflect that the Council is a Public Interest Entity (UK PIE), due to its listed debt.

IT audit strategy

In accordance with ISA (UK) 315 Revised (see page 51), we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	22/23 Spend/Income	Planned level IT audit assessment
Business World- Unit 4	Financial reporting	Total comprehensive income of £733m and reserves of £1.3bn.	• Design and Implementation Effectiveness
Capita - Academy	Council Tax, Business Rates, Housing Benefits	Council Tax income of £159m, business rates income £97m, housing benefits subsidy of £76m and related expenditure.	• Design and Implementation Effectiveness
Resource Link	Payroll	Employee benefits expenses of £355m	• Design and Implementation Effectiveness
ControCC	Child Social Care	Expenditure contributing to the £107m of Children and Young People's services expenditure	• Design and Implementation Effectiveness
CareDirector	Adult Social Care	Expenditure contributing to the £183m of Adult Services & housing expenditure.	• Design and Implementation Effectiveness

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

Risks of significant VFM weaknesses – continued

The Audit Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

We undertake initial planning work to inform this Audit Plan and the assumptions used to derive our fee. A key part of this is the consideration of prior year significant weaknesses and known areas of risk which is a key part of the risk assessment for 2023/24. We set out our reported assessment below:

Criteria	2022/23 Auditor judgement on arrangements informing our initial risk assessment		Additional risk-based procedures planned
Financial sustainability	Amber	We noted in 2022/23 that the Council's financial position would be more challenged for the 2023/24 and later years.	We will follow up progress against the key recommendation(s) made and ensure that our work assesses the current arrangements in place.
Governance	Red	Significant weakness around delayed audit timetable and audit timetable identified in 2022/23.	We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place as required by the Code of Audit Practice.
Improving economy, efficiency and effectiveness	Amber	No significant weakness in arrangements identified for 2022/23 but improvement recommendations were made.	We will follow up progress against the improvement recommendation(s) made and ensure that our work assesses the current arrangements in place.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

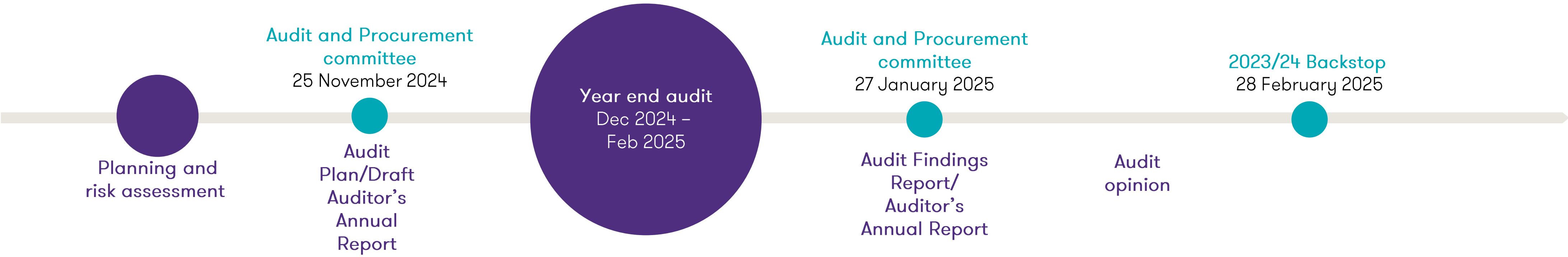
Risks of significant VFM weaknesses – continued

Since we reported on 2022/23, we have undertaken our detailed planning work and identified risks of significant weakness in relation to your 2023/24 arrangements. This means that we will continue our review of your arrangements and undertake additional procedures as necessary relating to the risk(s) identified in our planning. We have detailed our risk assessment for 2023/24 below.

Criteria	Risk of significant weakness identified from the planning work	Additional risk-based procedures planned
Financial sustainability	Risk of significant weakness identified for 2023/24 on the underlying deficit; future deficits expected; and the adequacy of reserves available to cover budget shortfalls.	We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place including additional risk-based procedures relating to the risk identified. Where appropriate we will follow up on any recommendation(s) made in 2022/23.
Governance	Risk of significant weakness identified for 2023/24, due to delays in publication of accounts.	We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place including additional risk-based procedures relating to the risk identified. Where appropriate we will follow up on any recommendation(s) made in 2022/23.
Improving economy, efficiency and effectiveness	No risk of significant weakness identified for 2023/24.	We will undertake sufficient work to ensure that we have documented our understanding of the arrangements in place including additional risk-based procedures relating to the risk identified. Where appropriate we will follow up on any recommendation(s) made in 2022/23.

We report our value for money work in our Auditor’s Annual Report. Any confirmed or additional significant weaknesses identified once we have completed our work will be reflected in your Auditor’s Report and included within our audit opinion.

Audit logistics and team



Andrew Smith
Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers

Zak Francis
Audit Manager

Works with senior members of your finance team, undertakes reviews of the audit team's work and ensures our reports are clear, concise and understandable.

Megan Hancox
Audit Incharge

Key audit contact for your finance team, responsible for the day-to-day management and delivery of the audit work

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you on our file sharing site, Inflo.
- ensure that the agreed data reports are cleansed, are made available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. PSAA awarded a contract of audit for Coventry City Council to begin with effect from 2018/19. This contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023/24 audit is £472,199.

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/'

Assumptions

In setting these fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023/24
Coventry City Council Audit	£472,199
ISA 315 (refer to page 51)	£12,550
Total audit fees (excluding VAT)	**£484,749**

Previous year

In 2022/23 the scale fee set by PSAA was £143,564. Given the unusual circumstances of the backstop, we are awaiting a determination from PSAA as to the appropriate fee to be charged for the audit years 2022/23, 2021/22 and 2020/21.

Since the opinion on the three preceding audits are disclaimed due to the imposition of a backstop date, we will need to undertake further audit work in respect of opening balances and are awaiting guidance on the scope and timing of this work. We will discuss the practical implications of this with you should this circumstance arise in the period.

Relevant professional standards

In preparing our fees, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 except for the following: there is a possibility we will exceed the 70% cap set by the Ethical Standards for non audit work, because the audit fee for previous years is expected to be reduced due to the backstop. We do not believe this impacts our independence and we received a waiver approval from the FRC.

We have complied with 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group and Council.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified. 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 and Council's policy on the allotment of non-audit work to your auditors. 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.

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Benefit Subsidy claim	£143,487 *(2023/24)* £106,150 *(2022/23)*	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 £143,487 in comparison to the total fee for the audit of £484,749, 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, grants work is carried out by a Grant Thornton team who are different to the audit team. The timing of certification work is carried out after the audit has completed where possible. Housing Benefit subsidy is a material figure in the accounts, however the level of errors identified have not been, and are not expected to be material.
		Management (because GT report to DWP)	The Council has informed management who decide whether to amend returns for our findings and agree the accuracy of our reporting. Any changes to subsidy payable will be determined by DWP and we have no involvement in the decision. These factors mitigate the perceived threats to an acceptable level.

Independence and non-audit services

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Teachers Pensions Return	£12,500 *(2023/24)* £10,000 *(2022/23)*	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 £12,500 in comparison to the total fee for the audit of £484,749, 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, grants work is carried out by a Grant Thornton team who are different to the audit team. The timing of certification work is carried out after the audit has completed where possible. Housing Benefit subsidy is a material figure in the accounts, however the level of errors identified have not been, and are not expected to be material.
		Management (because GT report to DWP)	The Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants. These factors mitigate the perceived threats to an acceptable level.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (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.

Applying IFRIC 14

This section provides the Audit and Procurement Committee with an overview of IFRIC 14 *'IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.*

The application of IAS 19 Employee Benefits when an authority has a net pension asset, and in some cases where it has a net liability, can be complex. To help practitioners, the International Accounting Standards Board (IASB) issued an interpretation to support the paragraph 64 of IAS 19: *'IFRIC 14 IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'.*

Historically, local authorities have reported significant net pension liabilities on their balance sheets, and therefore the impact of IFRIC 14 could reasonably be assumed to be minimal. However, recent market fluctuations have meant that, for some authorities, net pension liabilities have significantly reduced, and in some cases the balance reversed so there is a net pension asset. As a result, the consideration of IFRIC 14 has become much more important.

Applying IFRIC 14 itself is not always straightforward, and therefore we have prepared this briefing to help the members of the Audit and Procurement Committee understand the potential implications for the Authority's financial statements.

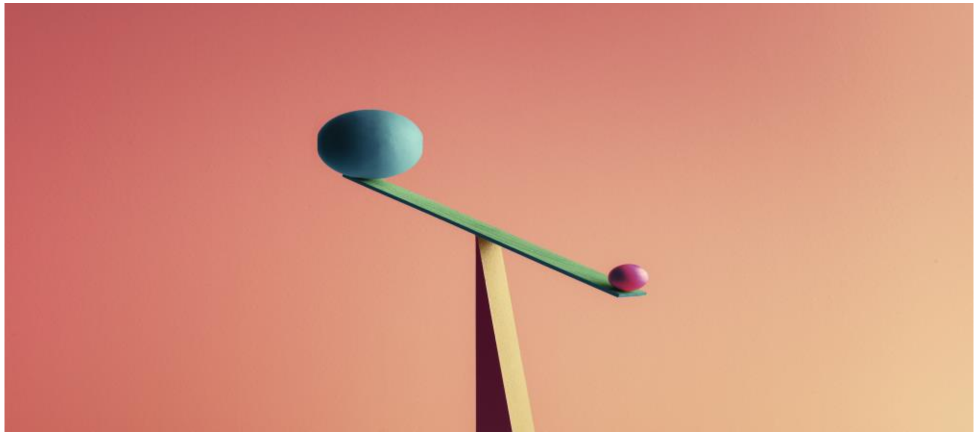
If you would like further information on this matter, please contact either your Engagement Lead or Engagement Manager.

Background

As part of the terms and conditions of employment of its officers, a local authority makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the authority has a commitment for them at the time the employees earn their future entitlement. The cost of retirement benefits is therefore recognised in the cost of services, with the Comprehensive Income and Expenditure account, as they are earned by employees. However, under statute the charge that is required to be made against Council Tax is based on the cash contributions payable in the year.

The authority participates in the Local Government Pension Scheme (the 'Scheme') which is a funded defined benefit final salary scheme. This means the Council and employees pay contributions into a fund, at a level intended to balance the pensions liabilities with investment assets. The level of employer contributions is set by the Scheme actuary and it is our understanding these contributions represent the minimum funding requirements for the authority's participation in the Scheme. Employee contribution rates are set by regulation.

At any given reporting date, the present value of an authority's defined benefit obligation, calculated in accordance with IAS 19 Employee Benefits, is expected to differ from the fair value of the plan assets, also calculated in accordance with IAS 19. This may result in a net pension liability or net pension asset.



Applying IFRIC 14

Recognition of an IAS 19 asset

An authority can recognise an IAS 19 pension asset on its balance sheet to the extent that associated future economic benefits will be available to it. This benefit would be in the form of a reduction in future employer pension contributions.

The economic benefit available to an authority as a reduction in future contributions is any reduction in the minimum funding requirement arising from an early payment, and the estimated future service cost less the minimum funding requirement contributions for future service contributions, if no early payment had been made. If this is less than the net asset initially calculated, it acts as a ceiling on the asset value which can be recognised on the balance sheet.

Management has engaged with the Fund actuary to understand the impact of IFRIC 14 on the Council's accounts.

In some cases, the actuary may determine that, as well as contributions for future service costs, there is a requirement for the authority to make good an existing pension shortfall in respect of services already received. This may be reflected in the actuary's certificate as required secondary contributions. Where this is the case, consideration needs to be given as to whether these contributions will be available to the authority after they are paid into the plan. To the extent that they will not be available, the authority needs to recognise a liability as the obligation arises. This can have the affect of reducing a net pension asset or increasing a net pension liability.

The potential impact of IFRIC 14 can be highly material to an authority's financial statements. Actuaries, generally, will not consider the impact of IFRIC 14 unless specifically requested to do so by the authority.

Further audit work may be required in this area, the extent of which will depend on the level of previous consideration of IFRIC14.

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an entity is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link.

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

Escalation policy

The Department for Levelling Up, Housing and Communities are proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future.

As your statutory auditor, we understand the importance of appropriately resourcing audits with qualified staff to ensure high quality standards that meet regulatory expectations and national deadlines. It is the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner.

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps should be followed:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit and Procurement Committee (at next available Audit and Procurement Committee meeting or in writing to Audit and Procurement Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Audit and Procurement Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

- ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

This impacts audits of financial statement for periods commencing on or after 15 December 2021.

- ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
- ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

A summary of the impact of the key changes on various aspects of the audit is included below:

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.

Auditing developments

Area of change	Impact of changes
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

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