

Informing the audit risk assessment for Coventry City Council 2023/24

September 2024

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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Coventry City Council's external auditors and Coventry City Council's Audit & Procurement Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit & Procurement Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit & Procurement Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit & Procurement Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit & Procurement Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit & Procurement Committee and supports the Audit & Procurement Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Authority's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Coventry City Council's management. The Audit & Procurement Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2023/24?</p>	<p>Valuation of the Council's asset portfolio will continue to be the area most subject to potential volatility. Also, the Council expects to incur Capital spend in excess of £100m in 23/24 which will impact key financial statements. There remains a need to continue to review the impact on the group accounts of the Council's activity in relation to the UKBIC, Sherbourne Recycling Ltd, and other subsidiaries.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Coventry city Council? Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>100% of Investment Properties are now valued annually in line with the recommendation in 19-20 audit findings report and signed off by audit committee.</p> <p>IFRS 16 is due to be adopted in 2024/25. Local authorities will need to include an anticipated impact of implementation within the 2023/24 financial statements.</p>
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p>	<p>The Council's financial instruments (both assets and liabilities) are reported annually in the notes to the main financial statements (latest year available at the time of writing is 2022-23, section 3.34).</p> <p>There is no use of financial derivative instruments.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>The Council is increasing the extent of the activity that it undertakes through companies which it owns in part or on a 100% basis. However, this in most cases this is likely to be a delivery mechanism for business as usual operations</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	We are not aware at this stage of any changes of circumstances that would lead to an impairment of non-current assets. An annual impairment review of the Council's property assets is undertaken as a matter of course.
6. Are you aware of any guarantee contracts? If so, please provide further details	The Council provides pension guarantees to a number of organisations. It does not have guarantor status for any other contractual purpose.
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	A contingent liability potentially exists in respect of Equal Pay Claims. Claims have been received which if successful, would result in a one-off revenue cost to the Council. However, the issue is still at an early stage and the Council is robustly defending, so there is, as yet, no reliable assessment of the validity, potential success, or value of any claims.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Coventry city Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	No solicitors used on litigation which would have a significant impact on the Council's financial position.

General Enquiries of Management

Question	Management response
9. Have any of the Coventry city Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details	Not aware of any.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	No advisors used on issues which would have a significant impact on the Council's financial position
11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details	Yes, this exercise is completed annually using payment information, communications received from borrowers and company performance information.

Fraud

Issue

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit & Procurement Committee and management. Management, with the oversight of the Audit & Procurement Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit & Procurement Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Coventry City Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit & Procurement Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit & Procurement Committee oversees the above processes. We are also required to make inquiries of both management and the Audit & Procurement Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Coventry City Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Coventry City Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Authority's risk management processes link to financial reporting?</p>	<p>The authority's assessment is that the risk of material misstatement is low.</p> <p>The quarterly monitoring of service revenue and capital budgets, financial outturn results and the subsequent financial statements should identify any material misstatements, including where this could be due to fraud.</p> <p>These processes are key components of the annual financial cycle and as such are carried out as part of business as usual. In addition the financial statements are subject to internal quality assurance control checks including analytical reviews with the objective of identifying any significant year on year variances.</p> <p>Further risk assessment processes related to the preparation of accounts will be completed based upon any audit issues raised by both Internal and External Audit.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>See above, the risk of fraud within the financial statements is considered to be low.</p>

Fraud risk assessment

Question	Management response
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Coventry City Council as a whole, or within specific departments since 1 April 2023? If so, please provide details</p>	<p>All concerns regarding fraud should be reported to the Chief Internal Auditor and defined processes are in place deal with any concerns raised. Since 1st April 2023 no concerns have been raised which would impact on the financial statements. In cases where fraud / error is identified through the work of Internal Audit as a result of third party actions (i.e the wider public) action is taken amend customer accounts / raise overpayments and recover monies wherever possible. In cases involving employees, these are dealt with through the Council's disciplinary procedures (including police investigation where appropriate.)</p> <p>In 2023/24 there have been the following cases of actual, suspected or alleged fraud:</p> <p>14 cases relating to external fraud against the Council.</p> <p>9 cases involving employees of the Council. Of these, 7 were not substantiated. In one case standards were reset and in one case relating to an agency member of staff, their engagement was terminated.</p> <p>There are 3 cases from previous years which are still under investigation:</p> <ul style="list-style-type: none"> 1 relates to a grant fraud (external) 1 relates to a direct payment fraud (this is subject to legal proceedings) 1 relates to an employee theft (the employee has been dismissed but there is an associated criminal investigation which is ongoing)

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>The Council's corporate risk register is subject to regular review and is reported to the Audit and Procurement Committee. The Committee also receives a half yearly report on anti fraud and corruption activity.</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Coventry City Council where fraud is more likely to occur?</p>	<p>A fraud risk register is maintained by Internal Audit and specific fraud risk assessments are undertaken where appropriate.</p> <p>Most risks around fraud relate to actions undertaken by third parties (i.e the wider public) to commit fraud against the Council. The risk of fraud in relation to financial reporting is assessed as low.</p>
<p>6. What processes do Coventry City Council have in place to identify and respond to risks of fraud?</p>	<p>The work of Internal Audit which specifically relates to fraud focuses on three areas: the National Fraud Initiative, referrals and investigations considered through the Council's Fraud and Corruption Strategy and proactive work (e.g fraud awareness). Separate arrangements are in place in relation to the risk of council tax fraud which is managed by the Revenues and Benefits Service.</p> <p>In addition to this, a fraud risk register is maintained by Internal Audit and specific fraud risk assessments are undertaken where appropriate.</p> <p>The risk of fraud is considered in individual audits, including an assessment of the controls in place to mitigate this.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Coventry City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>The Internal Audit Annual Report details the process for reviewing the effectiveness of the system of internal control and the results of this review. The last formal assessment of the Council's control environment was for the financial year 2023-24. The Chief Internal Auditor's opinion was that reasonable assurance could be provided that there is generally a sound system of internal control in place. This means that there is generally an appropriate level of control for managing the majority of the significant inherent risks to the Council's objectives to a reasonable level. Nothing has come to light in 2024-25 to materially impact on this opinion.</p> <p>No risk areas have been identified in relation to the financial statements.</p> <p>Roles and responsibilities in relation to systems of control are defined in various places such as the Constitution and Contract Procedure Rules and are enforced as far as practicable through ICT system controls and monitoring. This includes controls enforced through the BusinessWorld system, which limits the potential for override of controls over the financial reporting process. Service area controls, e.g segregation of duties of officers to mitigate fraud are in place to support the Councils Fraud and Corruption Strategy and Whistleblowing Policy.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None known</p>

Fraud risk assessment

Question	Management response
<p>9. How does Coventry City Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details</p>	<p>The Council has a Code of Conduct which sets out the expected behaviours of its staff. In addition, all staff and agency workers are required to undergo an induction process. Contracts include terms and conditions around the behaviours etc of contractors. Policies linked to ethical behaviour and business processes are available on the Council's Intranet site. This includes an "I have a concern" page which provides details of how employees can raise concerns, including those linked to fraud.</p> <p>The Council has a Fraud and corruption Strategy, a Whistleblowing Policy and an e-learning fraud awareness tool in place. Other mechanisms are also used to encourage staff to report concerns, including the Finance and Audit school newsletter and face to face fraud awareness sessions. Staff are expected to raise all concerns about fraud with the Chief Internal Auditor. In 2023/24 to date, no issues have been reported which have led to significant fraud being identified. (There are 3 cases from previous years which are ongoing. This includes 2 cases linked to external fraud against the Council and one relating to employee theft.)</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>Any postholder with responsibilities for handling income, particularly cash, or who have budget holder responsibilities could be considered to be high-risk. However, levels of cash income are not significant and appropriate checks and balances are in place, including budget monitoring, scheme of delegation and segregation of duties, which are also enforced through the BusinessWorld system.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>Most of the related party transactions that could give rise to potential fraud are those in which Councillors have a direct interest. Risks are mitigated by Councillor's declaration of interests and non-participation in debates.</p> <p>All postholders grade 9 and above are required to complete an annual declaration of interests and provide details of how any potential conflicts of interests are managed. In addition, the Council receives and reviews data matches via the National Fraud Initiative linked to this area of risk.</p> <p>Officers who have a role in Coventry Municipal Holdings complete an additional declaration of interest in relation to that role and a separate register of interests is maintained</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit & Procurement Committee?</p> <p>How does the Audit & Procurement Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The Audit and Procurement Committee receive half yearly reports on anti fraud and corruption activity. The Committee also receive quarterly Internal Audit progress reports which provides details of key audits undertaken. Where appropriate this would include issues relating to management processes for mitigating the risk of fraud and internal control issues.</p> <p>The Chief Internal Auditor's annual audit opinion on the adequacy and effectiveness of the internal control environment also highlights any significant control issues to the Committee. Where appropriate, significant issues would be included in the Annual Governance Statement.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Council has a Whistleblowing Policy and a defined process in place to deal with concerns raised by whistleblowers. In 2023/24 four whistleblowing complaints linked to potential fraud were raised. Of these:</p> <ul style="list-style-type: none"> - in 3 cases the matter was not substantiated - in 1 case involving an external fraud against the Council, action was taken to end the Council's duty to provide temporary accommodation <p>None of the concerns relate to misstatement within the financial statements / financial reporting due to fraud.</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>One of the Whistleblowing concerns referred to above related to potential bribery. The matter was not substantiated.</p>

Law and regulations

Issue

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit & Procurement Committee, is responsible for ensuring that Coventry City Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit & Procurement Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Coventry City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Authority's regulatory environment that may have a significant impact on the Authority's financial statements?</p>	<p>Through effective governance processes and review mechanisms such as internal audit. The Monitoring Officer and the Council's legal team advise the Council's leadership, councillors and departments on changes to the legal and regulatory environment that impact on the Council. For example, in light of new procurement regulations the Council's contract procedure rules have been updated and the new requirements disseminated to the organisation.</p>
<p>2. How is the Audit & Procurement Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Annual Governance Statement presented to the Committee provides assurance that arrangements are in place for facilitating effective exercise of the Council's functions. This includes ensuring that its business is conducted in accordance with the law and proper standards. The review which underpins development of the Annual Governance Statement includes assurance from Directors that there have been no significant breaches of laws and regulations.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2023 with an on-going impact on the 2023/24 financial statements? If so, please provide details</p>	<p>No</p>
<p>4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details</p>	<p>As stated above, Equal Pay claims have been received which if successful, would result in a one-off revenue cost to the Council. However, the issue is still at an early stage and the Council is robustly defending, so there is, as yet, no reliable assessment of the validity, potential success, or value of any claims.</p>

Impact of laws and regulations

Question	Management response
5. What arrangements does Coventry City Council have in place to identify, evaluate and account for litigation or claims?	Legal Services maintain a risk register containing a list of high-risk matters (financial and reputational) which are constantly kept under review by the Legal and Procurement Management Team for potential litigation. Any of these matters which have a significant financial implication to the Council would be included and identified in the Corporate Risk Register.
6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details	There have been no reports of non-compliance from regulatory bodies.

Related Parties

Issue

Matters in relation to Related Parties

Coventry City Council is required to disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Coventry City Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Authority;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Authority, or of any entity that is a related party of the Authority.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Authority must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Coventry City Council's 2023/24 financial statements? If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Coventry City Council whether Coventry City Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>(New RP since April 20)</p> <p>Yes, changes detailed below.</p> <p>Coventry Municipal Holdings was incorporated in October 2021 to act as an intermediary parent company acquiring interests in the Council's existing subsidiaries via a share issue in November 2021. CMH is a wholly owned subsidiary of the Council. CMH was set up to strengthen the governance and strategic management across the Council's group structure. Note that UKBIC is not included within CMH due to the highly specialised nature of the company, but will still comply with the same member governance oversight.</p> <p>The Council acquired a 50% shareholding in Coventry and Warwickshire Growth Hub (company no. 09146585) for a £1.00 nominal value in November 2023. This is a joint venture between the Council and Warwickshire County Council, with each partner acquiring a 50% shareholding in the company following the closure of Coventry and Warwickshire Local Enterprise Partnership (company no. 08210423) in March 2023. CWGH is treated as a joint venture and the Council has agreed to provide an annual funding contribution of £0.130m.</p> <p>The Council acquired a 21.5% shareholding in Sherbourne Recycling Limited (company no. 13227088) in April 2021, which is a recycling company owned with other local authority partners. The Council is the largest single shareholder, owns the freehold over the site which is provided to the company on a long term lease and has a waste supply contract with the company. The Materials Recycling Facility became operational in October 2023. SRL is treated as an associate.</p> <p>CAPL (LACo) and TWW (LACo) were set up in April 2021 and October 2021 respectively. The Council is permitted to directly contract with each LACo for services without undertaking a regulated procurement exercise using the 'Teckal' exemption where the Council assess that the Teckal company is best placed to provide this service .</p>

Related Parties

Question	Management response
2. What controls does Coventry City Council have in place to identify, account for and disclose related party transactions and relationships?	Related party transactions and relationships are reported within the statutory accounting process through analysis of existing disclosure records and a process to collect information on these relationships.
3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?	No specific controls relating to related parties' transactions. Relevant controls for approval and delegation form part of our business-as-usual practices.
4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?	Per above. No transactions expected outside of normal business.

Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Coventry City Council will no longer continue?</p>	<p>The Council has a number of controls in place to establish and manage any threat to statutory service delivery. A Corporate Risk register is in place, which is reviewed regularly at senior officer level, as well as being presented to members periodically. Service risk registers are also maintained which are managed by service Directors and their management teams. Performance boards also exist, together with budgetary control arrangements/reporting to identify any financial threat to service delivery. Officer/member relations are also very strong in terms of financial strategy and budget planning. Suitable governance arrangements are also in place for non-financial performance, and also major project specific delivery.</p>
<p>2. Are management aware of any factors which may mean for Coventry City Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>The Council has a robust MTFs and budget setting strategy with a healthy officer/member relationship. Whilst the operating environment is currently very volatile for key services, and national funding is reducing in real terms, these arrangements place the Council in a good position to respond to challenges such that statutory service delivery will not be placed at risk.</p>
<p>3. With regard to the statutory services currently provided by Coventry City Council, does Coventry City Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Coventry City Council to cease to exist?</p>	<p>It is expected that Coventry City Council will continue to deliver statutory services for the foreseeable future.</p>
<p>4. Are management satisfied that the financial reporting framework permits Coventry City Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Management are satisfied that financial statements can be prepared on a going concern basis, and that they will provide a faithful representation of the financial position of the Council in so doing.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	See Appendix A
2. How does the Authority's risk management process identify and address risks relating to accounting estimates?	The relevant budget holders, supported by financial management officers, review the latest information feeding into, and outputs generated from, the estimation processes. This includes comparing the latest position with the estimates made at previous balance sheet dates.
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	See 2 above
4. How do management review the outcomes of previous accounting estimates?	See 2 above
5. Were any changes made to the estimation processes in 2023/24 and, if so, what was the reason for these?	No changes are anticipated, however there may be a need to make changes on review, per 2. Above.

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>By considering the complexity and uncertainty of different aspects of the accounts.</p>
<p>7. How does the Authority determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>The relevant budget holders, supported by financial management officers, consider what controls are required for particular aspects of the accounts where accounting estimates are required.</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>The impact of, and particularly any significant changes in, the accounting estimates are reviewed by Corporate Finance officers as part of the process for producing the statement of accounts.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>The Corporate Finance officers involved in 8 above, would review both the output and methodology adopted.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	We are not aware of any transactions, events or conditions other than those identified.
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	Yes. Where estimation is necessary, appropriate estimating methodology is utilised. Estimates will be prepared by those best qualified, e.g. pension fund actuary, professionally qualified asset valuer.
12. How is the Audit & Procurement Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Accounting estimates are an integral part of the statutory accounting and reporting process.

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Land and buildings valuations	Current value for land/buildings defined as 'existing use value' DRC method used for specialist assets e.g. schools	Valuations are performed 5 yearly with consideration for any high value assets or assets where there has been a known change in year e.g significant spend. An impairment review is undertaken to ensure that the current value of an asset that hasn't been revalued does not differ materially from its carrying amount.	Yes – Wilkes Head and Eve	Degree of uncertainty inherent with any revaluation. We commission professional valuers and rely on expert opinion.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Council dwelling valuations	n/a	n/a	n/a	n/a	n/a
Investment property valuations	Fair Value	Valuations are performed annually to ensure that the current value/ fair value of a revalued asset does not differ materially from its carrying amount.	Yes – Wilkes Head and Eve	Degree of uncertainty inherent with any revaluation. We commission professional valuers and rely on expert opinion.	No
Depreciation	Depreciation methods, useful lives and residual values are reviewed each financial year and adjusted if appropriate.	Consistent application of depreciation method across assets	Discussion with internal asset team and where applicable the external valuer. (WHE)	Depreciation is calculated on a straight-line basis as this reflects consumption of assets and is a reasonable assumption.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities	Actuarial gains and losses are created when the assumptions underlying the Council's projected benefit obligations change. All pension plans will see periodic actuarial gains or losses as key demographics, or economic assumptions are updated. These figures are calculated by the actuarial for the West Midlands Pension Fund – Hymans Robertson	Hymans Robertson carry out calculations in conjunction with the pensions authority – City of Wolverhampton Council. Coventry will respond to any queries raised by Wolverhampton and vice-versa	The Council are provided with an actuarial report by Hymans Robertson	The nature of these figures forecasting into the future are based upon the best information held at the current time and are developed by experts in their field.	No
Level 2 investments	Following acquisition date, the Council uses a combination of Level 2 and Level 3 to value its investments in companies.	The advice of an external valuer is taken to identify comparable transactions for company sales.	Yes, external valuers for company investments.	There is a degree of uncertainty with using market multiples and performance / budget information from companies.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 3 investments	Following acquisition date, the Council uses a combination of Level 2 and Level 3 to value its investments in companies.	Conversations with management to investigate any assumptions made in financial information provided by companies.	Yes, external valuers for company investments.	There is a degree of uncertainty with using market multiples and performance / budget information from companies.	No
Fair value estimates	Methods compliant with IFRS 13 (market, income, cost and adjusted net assets) are used to value company investments.	n/a	Yes, external valuers for company investments, including RICS surveyors where required.	There is a degree of uncertainty with using market multiples and performance / budget information from companies.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions	Provisions are identified through detailed monthly management accounts which flags any potential issues to management.	Each provision is separately reviewed by financial accounts and a working is put together to support the calculation.	As necessary on an individual basis	Each provision is assessed on an individual basis to ensure that it meets the criteria of a provision per IAS 37. The degree of uncertainty is assessed when determining whether a provision is the correct treatment for an item.	No
Accruals of income and expenditures	Accruals are estimated by reviewing goods and services received prior to the end of the financial year for which an invoice has not been received.	Monthly management accounts provides rigorous analysis so that any accruals are highlighted and actioned throughout the year.	No	The use of actual dates of receipt of goods and services gives a low degree of uncertainty	No
Credit loss and impairment allowances	Expected Credit Loss model Long term debtors are assessed for impairment using payment information, company performance data, knowledge of the external environment and communications from companies.	Knowledge by the Accounts Receivables team in likelihood of recoverability and the aging of the debts. Tina Pinks Finance Manager (Corporate Finance) at CCC signs off the write off.	No	N/A	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities	<p>Under the requirements of IFRS16 we are reviewing all our potential lease liabilities.</p> <p>In recent years the council's policy has been to purchase assets e.g vehicles/waste containers and resource these from borrowing rather than leasing the assets.</p>	Review of leasing agreements and associated information against accounting requirements.	No However, as part of the introduction of IFRS16 the use of experts may be considered on a case-by-case basis.	The assumptions would be based on the legal agreements in place and the relevant market information e.g interest, asset values, etc.	No Impending changes due to IFRS16 are being considered and will impact at the relevant stage.
PFI Liabilities	Estimates are made at the outset of PFI schemes based on established models. The models are agreed with our external auditors who have reviewed this extensively in recent years.	Given that estimates are established at the outset of the PFI scheme they are then determined for the life of the scheme, reflecting for example, the fixed cost or the debt financing within the scheme.	Yes, at the outset of the schemes or where re-financing of PFI debt is considered experts are used in line with standard practice.	Alternative estimates are not generally considered once the model has been established, unless there are major changes in the scheme (e.g. re-financing).	No



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