DRAFT Independent auditor's report to the members of Coventry City Council

Report on the audit of the financial statements

Disclaimer of opinion

We were engaged to audit the financial statements of Coventry City Council (the ‘Authority’) and its subsidiaries, associates and joint ventures (the ‘group’) for the year ended 31 March 2024, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Account, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and the notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Overview of Main Financial Statements, Notes to the Main Financial Statements, Statement of Accounting Policies, Notes to the Collection Fund Statement, Overview of Group Accounts and Notes to the Group Accounts (Notes 4.6 to 4.14). The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24.

We do not express an opinion on the accompanying financial statements of the Authority or group. Because of the significance of the matter described in the basis for disclaimer of opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these financial statements.

Basis for disclaimer of opinion

The Accounts and Audit (Amendment) Regulations 2024 (‘the Regulations’) require the Authority to publish audited financial statements for the year ended 31 March 2024 by 28 February 2025 (‘the backstop date’). The backstop date has been put in law with the purpose of clearing the backlog of historical financial statements. The latest date on which unaudited accounts could be published to enable local elector rights to be met in time for the backstop was 16 January 2025. The Authority published its unaudited accounts on 29 November 2024.

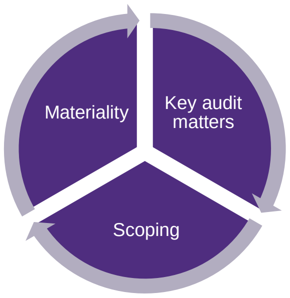
On 6 December 2024 we issued a disclaimer of opinion on the Authority’s and the group’s financial statements for the year ended 31 March 2023, as we had not been able to obtain sufficient appropriate audit evidence by 13 December 2024, the previous backstop date, that the financial statements were free from material misstatement. We were therefore unable to obtain sufficient appropriate audit evidence over the corresponding figures or whether there was any consequential effect on the Authority and Group Comprehensive Income and Expenditure Statement for the year ended 31 March 2024 for the same reason.

In addition, we have been unable to obtain sufficient appropriate audit evidence by the backstop date to conclude that the Authority’s and group’s financial statements for the year ended 31 March 2024 as a whole are free from material misstatement.

We have concluded that the possible effects on the financial statements of undetected misstatements arising from these matters could be both material and pervasive. We have therefore issued a disclaimer of opinion on the financial statements. This enables the Authority to comply with the requirement in the Regulations that they publish audited financial statements for the year ended 31 March 2024 by the backstop date.

Our approach to the audit

	Overview of our audit approach **Financial statements audit**
	Overall materiality



Group: £11,700,000, which represents 1.25% of the group's gross expenditure

Authority: £11,000,000, which represents 1.25% of the Authority's gross expenditure

Key audit matters were identified as:

- Valuation of Land and Buildings and Investment Properties
- Valuation of the Pension Net Liability
- Accounting for the Group and the valuation of Long-Term Investments

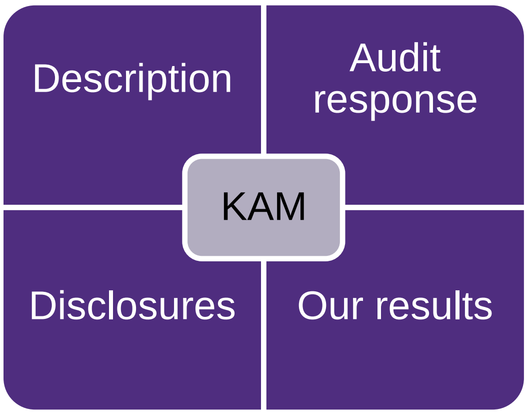
Our auditor's report for the year ended 31 March 2023 did not include any key audit matters, due to us having not performed audit procedures to identify key audit matters, significant risks or other risks relevant to the audit in the previous year.

Value for money arrangements

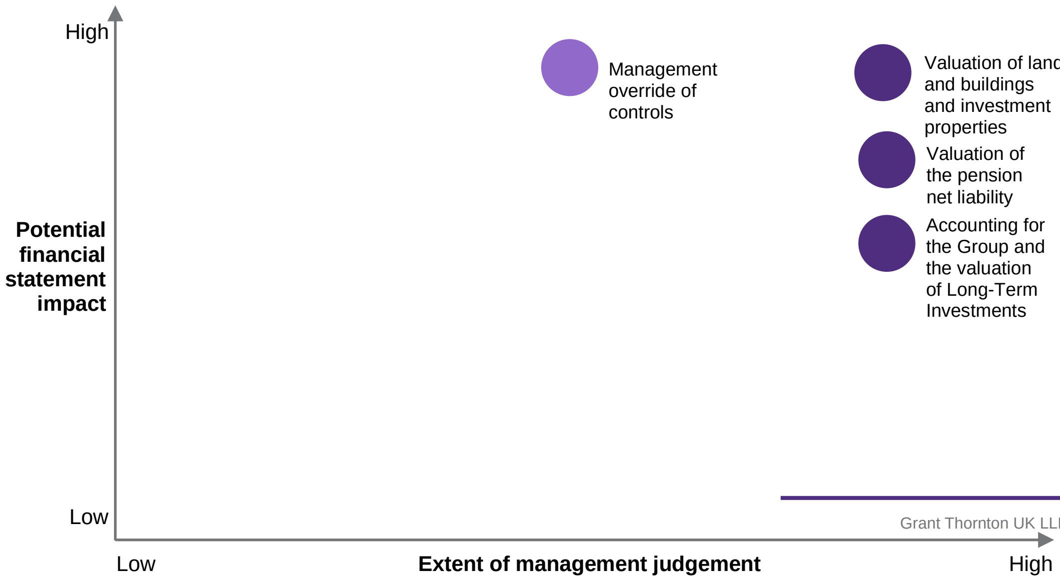
We are required to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024. Our approach to this work is set out in the 'Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources' section of this report.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the group and Authority's financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



In the graph below, we have presented the key audit matters and significant risks relevant to the audit. This is not a complete list of all risks identified by our audit.



	Key audit matter		Significant risk

Key Audit Matter - Group	How our scope addressed the matter - Group
Valuation of Land and Buildings and Investment Properties We identified the valuation of land and buildings and investment properties as one of the most significant assessed risks of material misstatement due to error. The Council values its land and buildings as a minimum on a rolling five-yearly basis. Interim reviews are carried out on this basis: If the value of an asset class is projected to materially change during the period since the last valuation, then further valuations are instructed. The Council also hold a range of investment properties which comprise commercial units, office units, agricultural assets, residential and other assets. These assets are included in the balance sheet at fair value, and the Council values them each year. These valuations represent a significant estimate by management in the financial statements due to the size of the balances involved (£686.4m land & buildings; £301.8m investment properties as at 31 March 2024), and the sensitivity of this estimate to changes in key assumptions. Within the other group entities further material land and buildings are held. Under FRS 102, (the accounting basis on which the other group entities prepare their individual 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. **Relevant disclosures in the Statement of Accounts** • Accounting Policy: Note 5.7, Accounting Policies - Property, Plant & Equipment, Investment Property and Assets Held for Sale. • Financial statements: Note 3.15, Property, plant and equipment; Note 3.17 Non-	Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we did not perform audit procedures in response to the key audit matter.

Key Audit Matter - Group	How our scope addressed the matter - Group
Operational Assets; Note 3.19 Revaluation of Property, Plant and Equipment. • Narrative Report: Note 1.2, Asset Valuations	
Valuation of the Pension Net Liability We identified the valuation of the pension net liability as one of the most significant assessed risks of material misstatement due to error. The pensions net liability, as reflected in the balance sheets of both the Council and group as the “net pension liability”, represents a significant estimate in the financial statements due to the sensitivity of the estimate to changes in key assumptions, and due to the size of the balance and remeasurements involved (£25.2m net liability at 31 March 2023 increasing to £35.4m net liability at 31 March 2024). 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. The methods applied in the calculation of the IAS 19 estimate are routine and commonly applied by all actuarial firms in accordance with the requirements of the CIPFA Code. We have therefore concluded that there is not a significant risk of material misstatement due to the 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 source of significant risk as this data can be easily corroborated and is predominantly factual in nature. 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 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, and hence a key audit matter is identified in these areas. **Relevant disclosures in the Statement of Accounts** • Accounting Policy: Note 5.7 - Accounting Policies - Employee Benefits - Post-Employment Benefits – Pensions • Financial statements: Note 3.31 - Retirement Benefits. • Narrative report: Note 1.2 - Pensions Accounting	Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we did not perform audit procedures in response to the key audit matter.

Key Audit Matter - Group	How our scope addressed the matter - Group
Accounting for the Group and the valuation of Long- Term Investments We identified accounting for the group and the valuation of long-term investments as one of the most significant assessed risks of material misstatement due to error. Over recent years, the Council has increased the number and value of interests it has in associated companies. In addition to the companies 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 instructs 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 (£116.5m at 31 March 2024) 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 the 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 **Relevant disclosures in the Statement of Accounts** • Accounting Policy: Note 5.7 - Accounting Policies – Investments; Financial Assets Measured at Fair Value; and Group Accounts	Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we did not perform audit procedures in response to the key audit matter.

Key Audit Matter - Group	How our scope addressed the matter - Group
• Financial statements: Note 3.21 Long Term Investments; note 3.34 Financial Instruments; note 3.35 Associated Company Interests and Holdings; and notes 4.1 to 4.14 Group Accounts and Notes to the Group Accounts. • Narrative Report: Note 1.2, Group Activity • Annual Governance Statement: Note 1.4	

We did not identify any key audit matters relating to the audit of the financial statements of the Authority only.

Our application of materiality

We apply the concept of materiality both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report.

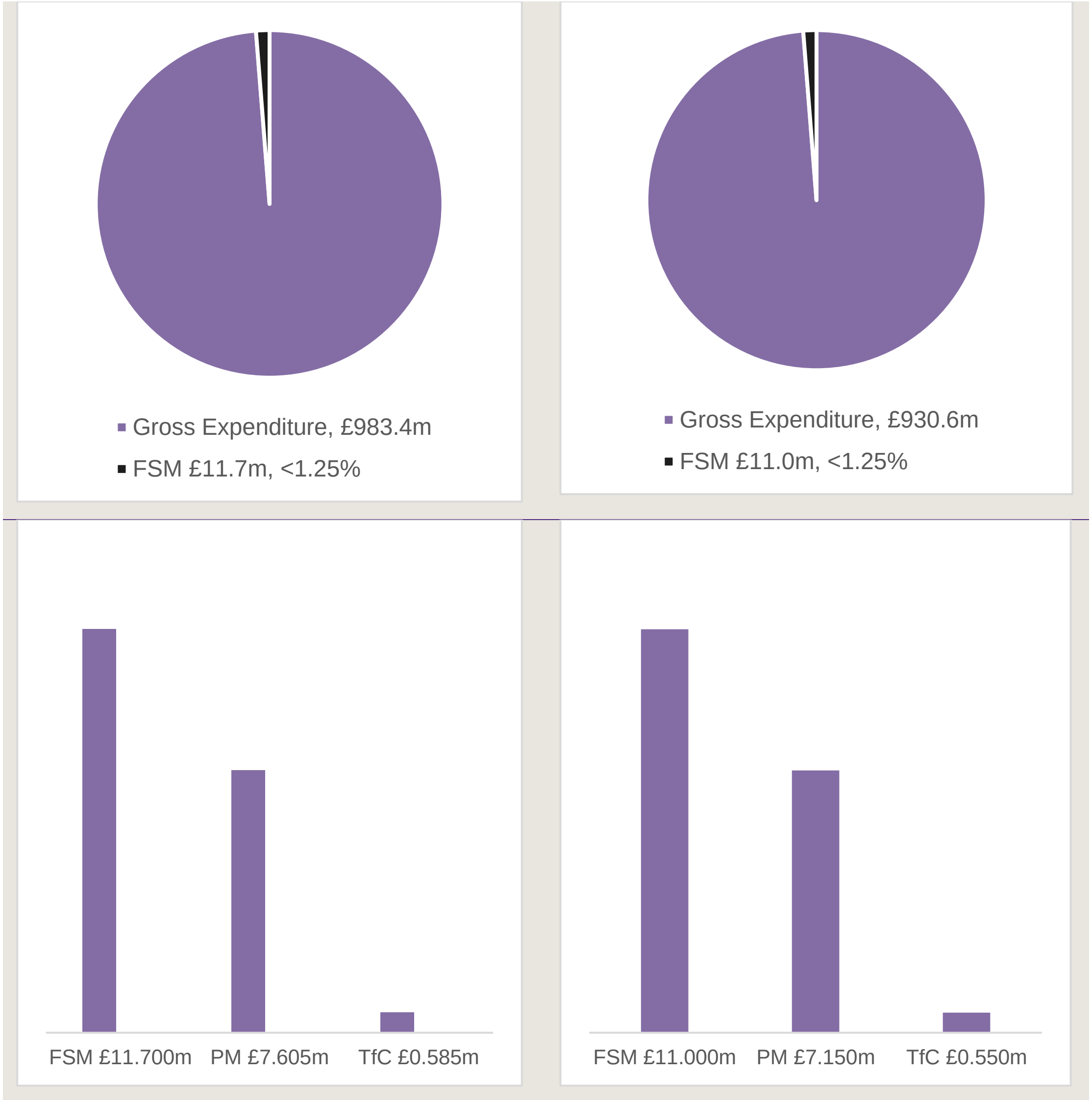
Materiality was determined as follows:

Materiality measure		
Materiality for financial statements as a whole	We define materiality as the magnitude of misstatement in the financial statements that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of these financial statements. We use materiality in determining the nature, timing and extent of our audit work.	
	Group	**Authority**
Materiality threshold	£11,700,000, which represents 1.25% of the group's gross expenditure.	£11,000,000, which represents 1.25% of the Authority's gross expenditure.
Significant judgements made by auditor in determining the materiality	In determining materiality, we made the following significant judgements: • regarding selection of an appropriate benchmark, we determined gross expenditure to be most appropriate as the group's performance, including the Authority as the most significant component of the group, is assessed based on its spend • regarding selection of an appropriate percentage to apply to that benchmark, we considered the heightened public interest in the group including the Authority which is a Public Interest Entity We did not determine materiality for the previous year.	In determining materiality, we made the following significant judgements: • regarding selection of an appropriate benchmark, we determined gross expenditure to be most appropriate as the Authority's performance is assessed based on its spend • regarding selection of an appropriate percentage to apply to that benchmark, we considered the heightened public interest in the Authority which is a Public Interest Entity. We did not determine materiality for the previous year.

Materiality measure		
Performance materiality used to drive the extent of our testing	We set performance materiality at an amount less than materiality for the financial statements as a whole to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.	
Performance materiality threshold	£7,605,000, which is 65% of financial statement materiality for the group.	£7,150,000, which is 65% of financial statement materiality for the Authority.
Significant judgements made by auditor in determining the performance materiality	In determining performance materiality, we made the following significant judgements: • Our understanding of the group, updated during the performance of risk assessment procedures; • Our experience with auditing the financial statements of the group in previous years; and • The time elapsed since our last full audit.	In determining performance materiality, we made the following significant judgements: • Our understanding of the entity, updated during the performance of risk assessment procedures; • Our experience with auditing the financial statements of the Authority in previous years; and • The time elapsed since our last full audit. .
Specific materiality	We determine specific materiality for one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.	
Specific materiality	We determined a lower level of specific materiality for the following areas: • senior officer remuneration disclosures	We determined a lower level of specific materiality for the following areas: • senior officer remuneration disclosures
Communication of misstatements to the Audit and Procurement Committee	We determine a threshold for reporting unadjusted differences to the Audit and Procurement Committee.	
Threshold for communication	£585,000, which represents 5% of financial statement materiality for the group. and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.	£550,000, which represents 5% of financial statement materiality for the Authority, and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the threshold for communication to the Audit and Procurement Committee.

Overall materiality - Group	Overall materiality - Authority



FSM: Financial statement materiality, PM: Performance materiality, TfC: Threshold for communication to Audit and Procurement Committee

An overview of the scope of our audit

We planned a risk-based audit that requires an understanding of the group's and the Authority's business and in particular matters related to:

Understanding the group, the Authority and its other components, and their environments, including group-wide controls

- the engagement team obtained an understanding of the group, the Authority and its environment, including group-wide controls, and assessed the risks of material misstatement at the Authority level.

Performance of our audit

- the Authority was identified as the only component of the group for which a full-scope audit was required, based on the Authority's gross expenditure representing 95% of total gross expenditure in the group.

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

Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have been unable to consider whether the Annual Governance Statement does not comply with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the

United Kingdom 2023/24, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

Opinion on other matters required by the Code of Audit Practice

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority's and group's financial statements and our auditor's report thereon. Because of the significance of the matters described in the basis for disclaimer of opinion section of our report, we have been unable to form an opinion, whether based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, whether the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority and the Director of Finance

As explained more fully in the Statement of Responsibilities set out on page 12, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to conduct an audit of the Authority's and group's financial statements in accordance with International Standards on Auditing (UK) and to issue an auditor's report. However, because of the matters described in the basis for disclaimer of opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on those financial statements.

We are independent of the Authority and group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The audit was defective in its ability to detect irregularities, including fraud, on the basis that we were unable to obtain sufficient appropriate audit evidence due to the matter described in the basis for disclaimer of opinion section of our report.

Other matters which we are required to address

We were appointed by Public Sector Audit Appointments Ltd on 19 December 2022 to audit the financial statements for the year ending 31 March 2024 and subsequent financial periods to 31 March 2028. Our total uninterrupted period of engagement is thirteen years, covering the years ending 31 March 2012 to 31 March 2024.

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

We have provided the following services in addition to the audit of the group and Authority since 1 April 2023 that have not been disclosed separately in the Statement of Accounts:

- agreed-upon procedures in relation to both the Housing Benefit Subsidy Claim and the Teachers' Pension return.

Once the Financial Reporting Council's Ethical Standard is applied to the fourth accounting period, the permitted level of non-audit fees for that period cannot exceed 70% of the three-year average audit fees for preceding periods. Due to backstop limitations on work carried out in previous periods, the audit fee for those periods is significantly lower than originally planned. This would have an impact on the non-audit services that we would be able to provide to the Authority. Grant Thornton applied for an exemption on this matter to the FRC given the unusual circumstances of the backstop. The exemption was granted.

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

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2024.

We have nothing to report in respect of the above matter, except:

- on 29 January 2024, we identified a significant weakness in the Authority's arrangements for governance. This relates to delays in preparing the Authority's financial statements, leading to uncertainty regarding the Council's financial position and a failure to meet statutory reporting deadlines. We recommended that the Authority address the weaknesses in the preparation of its financial statements as identified in our financial statements audit work that have caused delays to the publication of the Statement of Accounts.

As part of our work on the Authority's arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness for the year ended 31 March 2024, we have reviewed the progress against the issue identified. Insufficient progress has been made regarding the significant weakness, therefore the significant weakness in arrangements remains in place.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in November 2024. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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

We cannot formally conclude the audit and issue an audit certificate for Coventry City Council for the year ended 31 March 2024 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary in relation to consolidation returns, including Whole of Government Accounts (WGA), and the National Audit Office has concluded their work in respect of WGA for the year ended 31 March 2024. We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2024.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 85 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature:

Andrew J Smith, Key Audit Partner

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

Birmingham

Date: