

Annual Audit Letter

Coventry City Council

Audit 2008/09

December 2009



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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/ members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion

- 1 I issued an unqualified opinion on the financial statements on 24 September 2009 and was very pleased with the co-operation we received from officers in working together to meet the agreed timetable.
 - 2 Before giving my opinion I reported to those charged with governance, in this case the Audit Committee, on the issues arising from the 2008/09 audit. I issued this report on 16 September 2009 and the Audit Committee approved the recommendations that were included in that report.
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Financial Statements

- 3 Management have adjusted the financial statements for a number of issues we identified during the course of the audit. However, there remained one misstatement that was not adjusted for by management, but this was not material and the impact of this would have been to increase the deficit for the year by £229,355.
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Use of Resources and Value for Money

- 4 We are required to conclude on the Council's arrangements to secure value for money in its Use of Resources. This year the Audit Commission changed significantly the work auditors had to undertake to form their opinion and raised the standards expected within those new arrangements. The new Use of Resources (UoR) assessment covers three themes - managing finances, governing the business and managing resources.
 - 5 Coventry scores 2 out of 4 for the use of resources. This is because the Council has good arrangements in place for managing finance and adequate arrangements for governing the business and managing resources. Areas of strong performance include risk management, internal control and member development.
 - 6 The three themes are broken down into 10 Key Lines of Enquiry and these are the new relevant criteria for our Value for Money Conclusion. I concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources and I therefore issued an unqualified value for money conclusion.
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Comprehensive Area Assessment - Organisational Assessment

- 7 This new assessment process brings together the judgements of a number of inspectorates and has concluded that Coventry City Council manages performance well, scoring 3 out of 4.

Actions

- 8 Recommendations are shown within the body of this report and have been agreed with the audited body.

Independence

- 9 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds.

Significant issues arising from the audit

- 10** I have issued an unqualified opinion on the financial statements.
- 11** Management have adjusted the financial statements for a number of misstatements identified during the course of the audit. However, there remained one misstatement that had not been adjusted for by management. The impact of this unadjusted misstatement would be to increase the deficit for the year by £229,355.
- 12** The financial statements include a provision for £30m for legal claims relating to equal pay. The Government has granted the Council a direction to treat the provision as capital expenditure to be funded from prudential borrowing. We have reviewed the Council's calculations and obtained confirmation from the Council's solicitor. In view of the subjective nature of the provision we obtained written representations from management on the assumptions used and the appropriateness of the provision.
- 13** The Council's long term investments in Birmingham Airport Holdings Ltd and Coventry Solihull Waste Disposal Co have been included in the accounts at cost. This is because the fair value cannot be measured reliably. A specialist valuation confirmed a wide range of potential values for the Airport investment. We have reviewed the Council's calculations and the specialist valuation report and have accepted that cost less impairment is an appropriate valuation basis for 2008/09. As the fair value valuations for Coventry Solihull Waste Disposal Co are less than cost we obtained written representations from management that no impairment was required.
- 14** The recession has had a negative impact on asset values. We have reviewed the Council's arrangements for carrying out an impairment review and are satisfied that the impairment calculations are appropriate.

Material weaknesses in internal control

- 15** We did not identify any significant weaknesses in your internal control arrangements.

Accounting Practice and financial reporting

- 16** I considered the qualitative aspects of your financial reporting.
- 17** As part of our audit of related party transactions disclosure note we reviewed transactions with entities that the Council has an interest in. We identified transactions with related parties that had not been disclosed in the financial statements.

International Financial Reporting Standards

- 18** The Council will have to prepare the 2010/11 financial statements in accordance with International Financial Reporting Standards (IFRS). The 2009/10 figures will have to be restated to be IFRS compliant. A project board has been established and a project plan developed. The project plan includes major milestones for the production of IFRS compliant accounts and the Council is generally making good progress towards these milestones.
- 19** One of the major changes brought about by IFRS is the classification of assets and in particular the nature and type of leases on properties. Only limited progress has been made towards the identification of potential finance leases. This is a complex area and there is no central record of leases and contracts held. The Council has a project group working on this area but this is a massive and complex exercise.

Recommendation

- R1** The Council should monitor progress towards implementation of IFRS paying particular attention to the identification of potential finance leases.

Certification of Grant Claims and Returns

- 20** We are required to report on your performance in relation to the certification work that we undertake. Appendix 1 contains the details of the returns we have audited on your behalf.
- 21** Our testing of the Housing Benefit and Council Tax Benefit Subsidy Claim identified numerous errors and resulted in a qualification to the claim. As well as incorrect subsidy being claimed we found instances where benefit was being underpaid and overpaid. The majority of errors were due to a change in circumstances on individual benefit cases. We understand that the Quality and Assessment Team are only quality reviewing new claims. If quality checks are extended to change of circumstance cases this may lead to a reduction in the number of errors. We have made a number of recommendations to management.

Recommendation

- R2** The Council should consider expanding the Housing Benefits Quality & Assessment Team work to include checking change of circumstance claims.

Audit fees

- 22** We were able to deliver the audit within the fee agreed at the start of the year as summarised below.

Table 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	269,893	269,893	0
Value for money	149,451	149,451	0
Total audit fees	419,344	419,344	0
Non-audit work - inspection	22,394	22,394	0
Total	441,738	441,738	0

- 23** Our 2008/09 grants certification fees amount to £151,124 compared with the estimate of £125,000. The actual time was greater than we estimated primarily because of the additional work required on the Housing Benefit and Council Tax Benefit Subsidy Claim.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 24** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 25** I have also taken into account, where appropriate, findings from previous use of resources assessments updating these for any changes or improvements and any other relevant audit work.
- 26** The Council's use of resources theme scores are shown in Table 2 below.

Table 2 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3
Governing the business	2
Managing resources	2

- 27** Coventry City Council has demonstrated that it has good arrangements in place for managing finance. There are adequate arrangements for governing the business and managing resources within which we identified some areas of strong performance such as risk management, internal control and member development. There were also a number of other areas where initiatives have been put in place but it was too early to see the outcomes.

Value for money and use of resources

Managing finances

28 Coventry City Council manages its finances well, planning its finances effectively to deliver its strategic priorities and secure sound financial health. The Council has a good record of delivering service efficiency improvement and cost reduction; both to balance its medium term financial position and also create resources to manage service pressures. Coventry's overall costs have risen less quickly than that of its nearest neighbours and generally, there is a good correlation between costs and performance in high spending services. Financial reporting is timely, reliable and meets the needs of users.

Governing the business

- 29** The Council has a clear vision of intended outcomes for local people, based on a sound understanding of needs. These are set out in the Sustainable Community Strategy which is the over- arching commissioning plan. However, the implementation plan for the Procurement Strategy has not been updated since the strategy was written in 2004. User groups and stakeholders are involved in the commissioning of some services but consultation is not yet consistent or coordinated across the Council.
- 30** The Council produces relevant and generally reliable data and information which is used to support decision making and manage performance. However, our data quality spot checks highlighted an inconsistent quality of data across the Council. Partners are working with the Council to develop and share quality data. Data security and compliance with relevant statutory requirements is improving but at a slower pace than expected.
- 31** There is effective leadership across the Council with clarity about executive, non-executive and scrutiny functions. Roles and responsibilities are clear and working relationships between members and officers are good. A high proportion of members have completed personal development plans. Appropriate governance arrangements for the Council's key partnerships are in place.
- 32** The Council has effective risk management arrangements which have resulted in outcomes including a sound system of corporate governance and lower risk and claim related costs. There is a clear strategy for managing the risk of fraud and corruption and Internal Audit is giving increasing priority to fraud. The system of internal control, including internal audit is sound.

Managing resources

33 The Council is taking a strategic approach to managing its use of natural resources and environmental impact. This is based on a good understanding of usage and is underpinned by sound action plans. However these have yet to deliver significant outcomes. There is clear political leadership and the Council is engaging staff in its approach to climate change. The Council's approach to reducing its own waste, reusing and recycling resources is under development. Biodiversity is actively managed and the Council takes a corporate approach to assessing environmental risk.

- 34** The Council has a framework for managing its assets which supports the delivery of its strategic priorities and works to meet service needs. However there was no corporate asset management plan in place in 2008/09. Responsibilities for asset management are clear and comprehensive information is held about the asset base. There is a corporate approach to the maintenance of the Council's operational and investment portfolio, except schools and the Council is working with partners to make the most effective use of assets across the city.
- 35** I have made a number of recommendations for improvement in our detailed Use of Resources report. A key theme of these recommendations is the development and implementation of action plans to ensure achievement of the required outcomes.

Recommendation

R3 The Council should monitor progress against the Use of Resources Action Plan.

VFM Conclusion

- 36** I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. From 2008/09, the Audit Commission will specify each year, which of the use of resources KLOE are the relevant criteria for the VFM conclusion at each type of audited body.
- 37** I issued an unqualified conclusion stating that Coventry City Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

Financial Standing and Treasury Management

- 38** The last year has seen the country enter a significant economic recession. The consequence locally, is an increasing demand for public services and the likelihood of reduced levels of central government funding. Together, these provide a significant challenge for local councils as they seek to continue to provide services to local residents, whilst maintaining a sound financial position.
- 39** The Council is fully committed to tackling the challenge of further improving the quality of its services even in the context of the serious financial pressure that it will face for the foreseeable future. This will be achieved through the successful delivery of the ABC programme (A Better Council for A Bolder Coventry). This is a radical programme of transformation reviews designed to improve the services that are provided to residents in a more cost effective manner.

Value for money and use of resources

- 40** There are some significant service pressures and financial challenges facing the Council including ensuring the robust services for vulnerable children and adults, enabling investment in the city and sub-region to sustain economic growth, taking forward major strategic imperatives (climate change, waste, Building Schools for the Future and city centre regeneration) and working with local and sub-regional partners and communities to develop services. Significant savings will be required over the medium term and the Council has savings proposals of £10.2m for 2010/11.
- 41** The impacts of the recession will continue to present a challenge to the Council in the coming financial year. I will continue to monitor the Council's response and actions in this key area.
- 42** During the year the Audit Commission asked us to undertake some work on your treasury management practices to support this area within use of resources. We completed the work as required and did not identify any weaknesses with your current arrangements.

Comprehensive Area Assessment - Oneplace

Comprehensive Area Assessment (CAA) is a new way of assessing local public services in England. It examines how well councils and other public bodies work together to meet the needs of the people they serve. The first results of these assessments will be available from 9 December 2009.

Managing Performance

- 43** The Audit Commission assesses how well the Council manages and improves its services and contributes to wider community outcomes. The assessment considers how successful the Council is in delivering its corporate priorities. The priorities have been drawn from what matters most to local people.
- 44** Coventry manages performance well, scoring 3 out of 4. It is addressing its priorities and generally hitting its targets. The Council is performing well in delivering social care for adults and children's services. Organisations across Coventry are working well together to help more people live independently. Homelessness is reducing and new affordable homes are being built. The Council is meeting the housing needs of vulnerable people.
- 45** People in Coventry get on well together and treat each other with respect. A recent survey shows that in Coventry 76 per cent of people are satisfied with their immediate local area as a place to live. This is broadly the same as the average for similar areas and lower than the national average of 81 per cent. People generally think they are safe. The Council is good at telling people what is happening within the city and has won an award for its communications. The Council and the Coventry Partnership are taking climate change seriously and good plans are in place.
- 46** Regeneration is progressing well, with a programme to redevelop the most deprived neighbourhoods already underway, and a clear master plan to redevelop the City Centre. The Council has a positive approach to the recession, with well established ways to support redundant residents back into employment. It is also working innovatively with developers to buy new homes to rent out now, and to sell in the future when the market picks up.
- 47** The Council is narrowing the inequality gap. But people's health is worse than the average for England, and their lives are a year shorter. Smoking and obesity are still major problems, although some good schemes are in place to tackle them. Teenage pregnancy rates are high, and have not been addressed successfully.

Overall Organisational Assessment

- 48** The Use of Resources and Managing Performance assessments are combined to give an overall organisational assessment judgement for the Council. The Audit Commission has determined that the organisational assessment judgement for Coventry City Council is that it performs well. This is because the Council is managing performance and its finances well. It has satisfactory arrangements for governing the business and managing resources.
- 49** The Council's Organisational Assessment is being reported separately by the Audit Commission's Comprehensive Area Assessment Lead for Coventry, Gary Stevens.
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Regeneration worklessness inspection

- 50** At the end of 2008/09 14.2 per cent of working age people in the Coventry were on out of work benefits, close to the target of 14.3 per cent, but this figure rises to about 30 per cent in the most deprived areas of the City. A recent inspection of the Council, along with the six other metropolitan councils in the West Midlands, found that a number of successful initiatives were being taken in Coventry to provide people with skills and job opportunities. For example, the Council uses its role as an employer well to provide work opportunities for disadvantaged people. It has significantly exceeded its targets in helping long term unemployed people into sustainable employment. The Council and its partners have a well established approach to support residents facing redundancy and support them back into employment. This was first developed in response to large scale redundancies of the past such as Peugeot Ryton in 2006, though the task is now made more difficult by fewer job opportunities.
- 51** However, the inspection found that in common with the other councils the numbers of people being helped in Coventry are small relative to the size of the unemployment problem. To address this all seven councils are coming together with other organisations such as Job Centre Plus and the Learning and Skills Council to work more effectively and on a larger scale. This is happening through a 'Multi-area agreement'. This joint plan to improve employment and skills in the West Midlands has been agreed and will be implemented from April 2010. Progress on implementing this plan and its impact on skills and unemployment in the sub region will be followed and commented on as part of Comprehensive Area Assessment.

Closing remarks

- 52** We have discussed and agreed this letter with the Assistant Chief Executive and the Director of Finance and Legal Services. We will present this letter at the Audit Committee on 13 January 2010 and will provide copies to all committee members.
- 53** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 3

Report	Date issued
Audit Plan	May 2008
Triennial Review of Internal Audit	March 2009
Opinion Audit Plan	May 2009
Interim Systems Report	September 2009
Annual Governance Report	September 2009
Use of Resources	October 2009
Recommendations Tracking Report	October 2009
CAA and Organisational Assessment reporting	December 2009
Annual Audit Letter	December 2009

- 54** The Council has taken a positive and constructive approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Dave Rigg
 District Auditor
 December 2009

Appendix 1 – Results of Certification of Grant Claims and Returns

In September 2009 the Audit Commission published its report: Review of Arrangements for Certifying Claims and Returns. The review included a number of recommendations aimed at raising the importance and profile of certification work with authorities and encouraging authorities to improve standards of claims and returns preparation. As a result of the national report, auditors are required to report annually on the results of certification work to those charged with governance.

For Coventry City Council during 2008/09 we were required to certify 43 grants/returns. These are included in the table below, along with the number of claims that were amended or qualified and the certification fees charged.

Table 4 Certification returns for Coventry City Council

Name of Return	Amount of Claim £	Fee Charged £	Amendment Required	Qualification Required
Housing and Council Tax Benefits	127,717,174	68,798	No	Yes
European Regional Development Fund Projects (29 claims)	8,789,334	43,880	Yes for 11 claims	No
European Regional Development Fund Plans (7 claims)	5,143,944	8,838	Yes for 3 claims	No
General Surestart	10,692,325	6,845	Yes	No
Teachers' Pensions	22,355,684	5,148	No	No
New Deal for Communities	8,500,000	12,388	No	No
Business Rates to the National Pool	106,433,795	3,683	No	No

Appendix 1 – Results of Certification of Grant Claims and Returns

Name of Return	Amount of Claim £	Fee Charged £	Amendment Required	Qualification Required
Disabled Facilities Grant	1,620,000	881	No	No
Transport Capital	1,892,593	663	No	No

The only claim where we have issued a qualification letter was the Housing Benefit and Council Tax Benefit subsidy claim. We have made a number of recommendations to management for improvement in this area.

Appendix 2 – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
Annual Audit Letter 2008/09 Recommendations						
6	R1 The Council should monitor progress towards implementation of IFRS paying particular attention to the identification of potential finance leases.	3	Finance Manager (Corporate Finance)	Yes	There is an IFRS implementation project plan in place. The impact on leases is one of the key work strands and we are well on track to identify the changes needed to restate the 2008/09 balance sheet and make the required entries for the 2009/10 shadow accounts ahead of full implementation in 2010/11.	June 2011
6	R2 The Council should consider expanding the Housing Benefits Quality & Assessment Team work to include checking change of circumstance claims.	3	Benefit Manager	Yes	Auditing of changes in circumstances is checked as part of the 100% audit carried out on new staff within the service. Within the current structure review of the benefits service, additional resources will be allocated to ensure that more robust auditing of changes in circumstances is carried out in the future.	March 2010
10	R3 The Council should monitor progress against the Use of Resources Action Plan.	3	Head of Performance and Scrutiny	Yes	Progress against the Use of Resources Action Plan is being monitored by officers responsible for relevant themes. Progress will be reported to the Audit Commission as part of the Council's Use of Resources self assessment for 2009/10 and to the Audit Committee through recommendations tracking reports.	September 2010

The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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