



The Audit Findings for Cheshire West and Chester Council

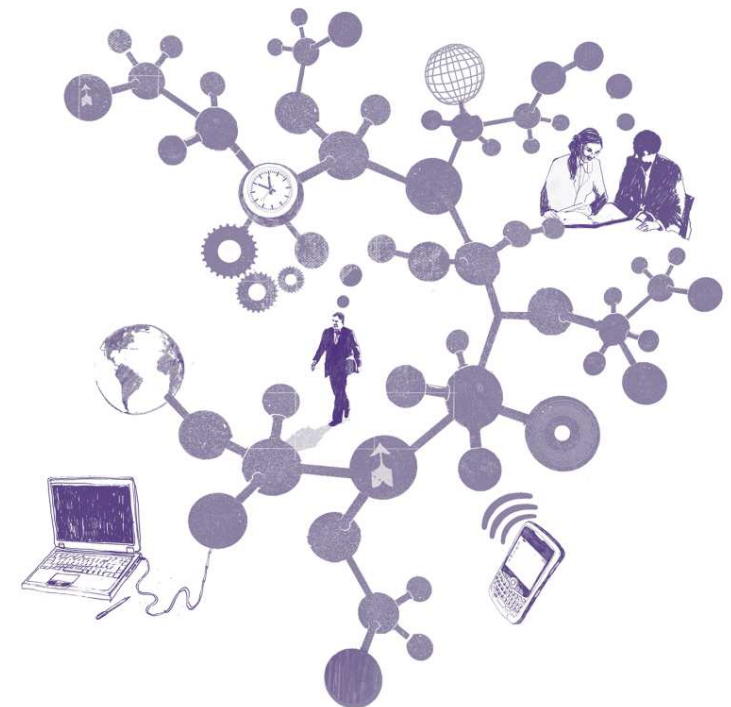
Year ended 31 March 2014

6 August 2014

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section	Page
1. Executive summary	5
2. Audit findings	8
3. Value for Money	22
4. Fees, non audit services and independence	28
5. Communication of audit matters	30

Appendices

- A Action plan
- B Audit opinion
- C Letter of representation

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We anticipate providing an unqualified opinion on the financial statements, and an unqualified value for money conclusion.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Cheshire West and Chester Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (ISA) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 23 May 2014. Our audit is substantially complete, although we are finalising our testing in the following areas:

- journals;
- payroll payments to employees;
- creditors;
- national non-domestic rates;
- property, plant and equipment;
- obtaining and reviewing the final management letter of representation;

- updating our post balance sheet events review, to the date of signing the opinion;
- review of the final version of the Annual Governance Statement, and
- Whole of Government Accounts.

Key issues arising from our audit

Financial statements opinion

As at 5 August 2014, and subject to the completion of the outstanding work described above, we expect to issue an unqualified opinion on the Council's financial statements.

The financial statements show gross expenditure of £704m, total net comprehensive income of £42m and net assets of £439m. We have not identified any adjustments affecting the Council's reported financial position. Officers have made some minor adjustments to improve the presentation of the financial statements as a result of the audit.

The key messages arising from our audit of the Council's financial statements are:

- No significant issues were identified;
- The accounts were well prepared with few errors. The Council provided high quality working papers at the start of the audit. Further working papers were produced as required during the audit.
- Finance staff were available throughout the audit to answer our questions promptly and provided additional information in a timely manner.

Further details are set out in section 2 of this report.

Value for Money conclusion

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion. Overall our work highlighted that the Council has satisfactory arrangements in place to secure financial resilience, and proper arrangements in place for challenging how it secures economy, efficiency and effectiveness.

The Council continues to show strong financial resilience and good financial planning and management, however the scale of the financial challenge remains significant. The medium term financial plan identifies a budget gap of £49m over the three years from 14/15 to 16/17. Having already delivered substantial financial savings, the Council faces a significant challenge to address this budget gap and to meet its statutory responsibilities. As part of its arrangements to further improve efficiency and effectiveness, the Council is currently undergoing a restructure of its senior management tiers which we understand will be completed by late summer.

Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention. Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Head of Finance and his finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
6 August 2014

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We have not identified any adjustments affecting the Council's financial position and we are expecting to issue an unmodified opinion on the financial statements.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 24 June 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to the Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 24 June 2014.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion. Our draft audit opinion is set out at Appendix B.

Key findings

The Authority submitted its financial statements for audit ahead of the statutory deadline of 30 June 2014. The draft accounts were prepared to a good standard and were supported by high quality working papers.

Our audit work identified a small number of minor disclosure amendments which would improve the overall disclosure in the financial statements. These changes have been processed by management along with a number of presentational amendments identified by management to improve disclosure for the reader of the accounts. These amendments do not affect the Council's reported financial position or available reserves.

As last year, we received good co-operation from officers and we would like to record our thanks for their professional and timely approach to the audit and to our requests for additional information.

Private Finance Initiative (PFI) scheme – Extra Care Housing

The Council has an established joint PFI scheme with Cheshire East Council which provides facilities and support for extra care housing. Accounting for PFI is a complex accounting area for the Council. The PFI sites are located in Ellesmere Port and Winsford for Cheshire West and Chester Council.

As part of our audit of the Council's accounts last year (2012/13), we recommended that the Council review the treatment of third party income generated by the PFI scheme and how this was accounted for following comparison with the Grant Thornton model. The Council completed this review during the year and estimated the impact of third party income on its accounts.

Following review of the Council's draft accounts and audit discussions with officers, we agreed that third party income would best be represented by way of enhanced disclosures in the financial statements. The Council has now made additional disclosures in the accounts to explain the accounting treatment.

There remain some differences between the Council's PFI liability and asset values and those shown by the Grant Thornton model, however, these differences are not material. The Council's valuation of its PFI extra care housing scheme scheduled in 2014/15, will confirm the asset values to be used in preparing the accounts for future years.

Audit findings continued

Property, Plant and Equipment (PPE)

The Council re-values its property portfolio on a rolling five year basis with 20 per cent re-valued each year. For those assets not formally re-valued in the year, officers undertake a formal review to ensure the carrying value does not differ materially from the value included in the accounts. Through this process, the Council has demonstrated that the valuation of other assets not re-valued in year, has not materially changed.

We are satisfied that the outcome of this process is reasonable. To enhance the Council's current arrangements, consideration should also be given to formalising the discussions held with the Council's in-house valuation team to provide an independent assessment of the change in overall asset values for asset categories not re-valued in year.

As part of the £300 million Northgate retail redevelopment of the centre of Chester, the Council purchased the freehold of the Forum shopping centre in December 2013. The agreed purchase price was £19.1 million recognising its potential future value as part of the overall Northgate redevelopment. As is the case for acquisitions of this type, the building had been purchased for redevelopment, as such, its valuation for existing use with various vacant units was £9.73 million at the year end. The difference of some £9 million has been impaired in the Council's accounts. The Council believes this impairment will be more than recovered once the scheme has been developed.

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses/creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle. • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively. • Testing of a sample of expenditure items and year end creditor balances. • Review for unrecorded liabilities. • Cut-off testing of the expenditure stream. • Assessment of the robustness of assumptions and estimates underlying accruals. 	Whilst our work on creditor testing is still on-going, our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle. • walkthrough of the key controls to assess the whether those controls are designed effectively. • Substantive testing of employee remuneration including: <ol style="list-style-type: none"> i. Analytical procedure to determine whether movements in salaries and other pay related costs are reasonable and materially correct. ii. Testing of a sample of payroll records to confirm the existence of employees and the accuracy of pay. iii. Agreement of related disclosures to the payroll system or other appropriate source document. 	<p>Whilst no issues have arisen to date, our work to confirm the existence of a sample of employees and the accuracy of their pay is still in progress.</p>
Property, plant & equipment	PPE activity not valid or Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle. • undertaken walkthrough of the key controls to assess the whether those controls are designed effectively. • Substantive testing of property, plant and equipment valuation. • Review of the valuer used by the Council as an expert. • Review of accounting estimates, judgements and decisions made by management. 	<p>Our work on PPE is still in progress. Whilst no significant issues have been identified to date, we noted the Council had grossed up movements in one investment property's fair value. Whilst the overall value at 31 March remains the same, the net movement should be shown. The Council has now amended the accounts to reflect the net movement.</p> <p>We have reviewed the Council's asset valuation process and have summarised our review in the Audit Findings section on page 9.</p>

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Welfare expenditure</p>	<p>Welfare benefit expenditure improperly computed</p>	<ul style="list-style-type: none"> • Documentation of processes and key controls over the transaction cycle. • Substantive testing of individual claims for housing and council tax benefit. • Housing benefit subsidy claim testing using Audit Commission HBCOUNT approach. • Reconciliation between the housing benefits system and the general ledger. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Housing revenue</p>	<p>Housing revenue transactions not recorded</p>	<ul style="list-style-type: none"> • Documentation of processes and key controls over the transaction cycle. • Substantive testing a sample of revenue and expenditure items. • Reconciliation between the rents system and the general ledger. 	<p>Our audit work has not identified any significant issues in this area.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income is accounted for in the year the activity it relates to takes place, i.e. on an accruals basis. Income is recorded when it is earned and not received. 	<p>We have reviewed the accounting policies against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> The approach to accounting for income is robust and in accordance with current guidance. Disclosure of the revenue recognition policy is adequate. The revenue recognition policies of the Council are appropriate to the accounting framework and are adequately disclosed. Our audit testing has not identified any areas of concerns in respect of revenue recognition. 	●
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Authority's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. 	●
Judgements and estimates - Other	<ul style="list-style-type: none"> Key estimates and judgements include <ul style="list-style-type: none"> Provisions and contingent liabilities. Classification, valuation, impairment and useful life of property, plant and equipment. Pension liabilities. Collection Fund surplus / deficit. Impairment of receivables past due date. 	<p>We have reviewed the judgements and estimates against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> Where the Council has made judgements or estimates in the financial statements these have been supported with robust methodologies and clear explanation of the assumptions applied. Disclosure of judgements and estimates is considered appropriate. 	●


Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate and disclosures sufficient

● Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements and estimates - PPE</p>	<ul style="list-style-type: none"> Page 47 of the accounts sets out the Council's accounting policy for asset valuations. Page 63 of the accounts sets out the rolling programme of revaluations over the 5 year period between 2009/10 and 2013/14. The Council's approach is similar to many other authorities. We are satisfied that the Council has demonstrated the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. In our view, however, this approach does not meet the Code's requirement in paragraph 4.1.2.35 (to value items within a class of property, plant and equipment simultaneously). 	<p>We have reviewed the judgements and estimates against the requirements of the Code of Practice on Local Authority Accounting.</p> <ul style="list-style-type: none"> Where the Council has made judgements or estimates in the financial statements these have been supported with appropriate methodologies and clear explanation of the assumptions applied. Disclosure of judgements and estimates is considered appropriate. <p>We have suggested further strengthening the arrangements for assets not re-valued in year by formalising the discussions held with the Council's in-house valuation team to provide an independent assessment of the change in overall asset values for asset categories not re-valued in year.</p>	

Assessment

- Marginal accounting policy which could potentially attract attention from regulators
- Accounting policy appropriate and disclosures sufficient

- Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 PFI restatement of prior period adjustment:			
<u>CIES</u>			
Adult social care - expenditure	(381)		0
Adult social care - income	381		
<u>Balance sheet</u>			
Non-current assets – property, plant & equipment		(9,536)	
Short term creditors		381	
Other long term liabilities		9,155	
Overall impact	£0	£0	£0

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	596	Note 36 Grant Income	Overall total within Note 36 remain unchanged, the impact is to increase Mandatory Rent Allowances subsidy and reduce Mandatory and HRA Rent Rebates.
2 Disclosure	859	Note 15 – Investment Properties	Value as at 31 March remains unchanged, the impact is to reduce 'Increases in Fair Value' and increase 'Decreases in Fair Value'

Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Governance is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1 None identified at date of report.	0	0	
Overall impact	£0	£0	

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

As part of our planned programme of work, our information system specialist team undertook a high level review of the general IT control environment at the Council. This was undertaken as part of the review of the internal controls system. We are pleased to report that no significant issue arose from our work, however we identified a small number of minor areas where the Council's existing IT arrangements can be developed further, including:

- transferring responsibility for administrative access for security within the Capita Academy system to IT system administrators rather than end users;
- enforcing password complexity within Oracle Financials and Capita Academy;
- periodically performing user account reviews for appropriateness of access; and
- developing formal batch processing policies and procedures.

Our recommendations are set out at Appendix A.

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance via the Audit and Governance Committee.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> The Council has adopted a reasonable approach to identifying and disclosing transactions with related parties in the financial statements and we are not aware of any related party transactions which have not been disclosed.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decisions to prepare the financial statements on a going concern basis.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We propose to give an unqualified VFM conclusion

Value for Money

Value for money conclusion

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in their use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited bodies have put in place such arrangements.

The VFM conclusion is based on the following two criteria specified by the Audit Commission:

- **The Council has proper arrangements in place for securing financial resilience.**
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.**

Our audit approach involves the completion of an initial risk assessment against a series of key criteria. In undertaking this initial assessment we took account of the key issues facing the Authority including the significant financial challenge of balancing service delivery against available resources at a time of reducing budgets.

We did not identify any residual risks that needed to be addressed through specific local work.

Key findings

The main matters to note from our VFM conclusion work are:

Securing financial resilience – the Council has delivered some £46m of savings following the reduction in Government grant funding over the first two year period of the spending review. In February 2013 the Council approved a balanced budget identifying options that closed a £14.8m budget gap. The Medium Term Financial Plan (MTFP) is updated annually to reflect the latest financial position and known funding changes and government announcements. The Council reported an overall underspend of £0.9m for 2013/14, after increasing earmarked reserves by £19m which is a significant achievement.

The scale of the financial challenge remains significant at the Council over the period of the MTFP, with savings of £49m being identified as required from 2014/15 to 2016/17.

The Council has shown strong financial resilience and good financial planning and management since the Comprehensive Spending Review (CSR) 2010 and continues to do so. The challenge is however becoming increasingly difficult to meet and in order to achieve this, the Council will need to continue to focus on service redesign and alternative service delivery models and also increase its focus on maximising income generation opportunities.

As part of its arrangements to further improve efficiency and effectiveness, the Council is currently undergoing a restructure of its senior management tiers which we understand will be completed by late summer 2014.

Value for Money

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies. The work has included:

- Review of the 2013/14 budget setting process and updates to the MTFP
- Review of the Council's budget monitoring arrangements
- Review of major projects and developments

Financial Planning - the Council has developed a Medium Term Financial Plan which provides detailed plans for three years (on a rolling basis) and considers the broad financial context for future years. This includes sensitivity analysis and scenario planning. With the uncertainty of future funding, detailed plans have not been developed further ahead than three years. However, the Council does consider the full financial impact of any decisions made on capital projects initiated.

Reserves Strategy - The Council has a general fund balance of £21.2m at 31 March 2014, which represents 7.29% of the net revenue budget. This is in line with the target set out in the reserves strategy, which aims for general fund balance to be approximately 7% of the net revenue budget. The reserves target has been retained in the MTFS for 2014/15 to 2016/17, which will be very challenging for the Council to achieve.

General Fund earmarked reserves as at 31st March 2014 were £54.079m.

Looking ahead, the Council is undertaking a review of all reserves and balances to support the continued delivery of a balanced budget. The Council holds specific risk reserves for grant claw back, insurance and specific legal claims where it is not possible with certainty to predict in what year these reserves will be utilised and therefore holds these on the balance sheet until required.

Reserves provide the Council with more options for delivering a balanced budget. However, were it to rely on using these balances in the short term this would reduce its flexibility within the financial strategy post 2016/17. We understand that the Council's current budget plans do not rely upon using significant balances from its reserves

Investment in capital projects - The Council has responded to the challenges created by the reduction in central government funding and has taken an innovative approach to its two major redevelopment projects: Northgate and Barons Quay. For example, the Council is acting as the developer for the project at Barons Quay. This means that the initial development and construction costs are borne by the Council, but the Council will retain the income generated from the project. There is clearly a financial risk to the Council adopting this approach, but this has been well managed and key tenants have been secured, assuring the Council's future income stream. The Northgate development is still at an early stage. We will continue to track progress on these place shaping projects.

Value for Money

The Council has set an ambitious capital programme of £283.8m for the 3 year MTFs period from 2014/15 to 2016/17, the majority of which is delivery of the Council's 10 year Capital Vision. The capital budget for 2013/14 was £93.3m, of which the Council delivered £81.9m, some 88%. The Council will need to continue to closely monitor its capital expenditure to ensure delivery against budget. In addition the Council will need to continue to closely assess the financial viability of planned future schemes given the significant financial savings the Council will need to deliver in coming years.

Better Care Fund – The Council has been proactive with Government in developing the Better Care Fund arrangements and was selected, together with Cheshire East Council, by NHS England as a Pioneer site to integrate care and support services across Cheshire. The Council is forward looking and ambitious in its approach and has developed joint plans with its partners with the aim to transform the local health economy. We will continue to track progress in this area.

As a result of an issue raised by a local government elector, we considered the Council's arrangements for the advertising and sale of a surplus Council asset. Following this review, and to continually improve its arrangements, the Council is strengthening its current processes further for relevant asset disposals.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Key indicators of performance	<p>The key indicators of performance highlight that, while the Council has managed its finance well to date, it is facing increasing financial pressures. This is as a result of a number of factors, for example reductions in Government funding, major projects being undertaken and managed by the Council . The Council has reacted appropriately to these challenges.</p> <p>The Council has below average level of borrowings. The annual cost of debt repayment and interest was £28.6m in 2013/14. This will be an area of increasing cost for the Council, given that a significant amount of new borrowing was undertaken towards the end of the financial year to fund the Council's major redevelopment projects for Northgate (£22m) and Barons Quay (£62m) and the full year impact of this borrowing will be felt from 2014/15 onwards. A further £36m of general fund and HRA borrowing will be required in 2014/15. Given the level of savings the Council has to make in the next 3 years the additional debt and interest payments will place an increasing pressure on the Council's finances.</p> <p>The Collection Fund was in deficit by £7.4m as at 31 March 2014. This is primarily due to the need to make significant provisions against business rates appeals, as part of the Business Rates Retention Scheme introduced in 2013/14.</p>	Green	Green
Strategic financial planning	<p>The Council has a good track record in delivering its revenue budget and managing financial performance. It has delivered over £13m of savings in 2013/14, bringing the total savings achieved by the Council to some £113m since the Council was formed in April 2009.</p> <p>Despite this the Council has to deliver a savings target of £49m between 2014/15 and 2016/17. This is a significant challenge and will impact heavily on services. The Council is aware of this and is putting in place policy savings options and service redesign to support its 3 year budget plans.</p>	Green	Green

The table below shows the overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial governance	<p>The Council has effective financial governance arrangements in place. The Council's financial environment and its financial performance is understood at all levels of the organisation. The Council has a good track record of delivering performance in line with budgets in recent years.</p> <p>The Council is undertaking a programme of 'make or buy' reviews in order to achieve large scale efficiency savings across the Council's services. As part of this process, the Council has created a number of Council owned companies to deliver services in the most efficient way. For example, during 2013/14, the Council transferred its Adult Social Care activities to Cheshire Provider Services (Vivo Care Choices).</p> <p>A further company has been established in conjunction with Cheshire East Council (CoSocius) to supply back office support services to the two Councils.</p> <p>We will continue to review the Council's contract management arrangements in this area.</p>	Green	Green
Financial control	<p>The Council has a robust business planning and budget setting process. The Council manages budgets well and this is evidenced by a good track record in achieving the overall budget and mitigating any overspends identified in year. The budget monitoring and reporting processes are robust.</p> <p>While overall performance against savings plans is good there are areas within directorates which did not achieve their savings plans, and additional action was required by the Council. In 2013/14 examples of overspending areas include the cost of agency placements within the Childrens and Young People directorate. Given the further savings needed by the Council in 2014/15 and beyond continued action is needed to address this area.</p>	Green	Green

Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

There are no significant facts or matters that impact on our independence as auditors

Fees, non audit services and independence

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

Fees

	Per Audit plan £	Actual fees £
Council audit	203,133	203,133
Grant certification	32,300	32,300
Total audit fees	235,433	235,433

Fees for other services

Service – provided directly to Cheshire West & Chester Council	Fees £
Regional Growth Fund (RGF) Audit – Ellesmere Port Development Board (Building on Success)	5,500

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We have delivered our audit in accordance with planned timescales and the requirements of Auditing Standards. We expect to give our opinions by the statutory deadlines.

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

	Audit Plan	Audit Findings
Our communication plan		
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council should consider reporting the gifts and hospitality registers to the Audit and Governance Committee to aid transparency.	Deficiency	<p>Gifts and hospitality registers are collated and monitored by officers. All items received by Members are published on the Council's website and are already fully transparent to the public.</p> <p>Gifts to officers tend to be fairly rare and of low value and in line with agreed policies are only accepted once signed off by a head of service or above. These tend to be small gifts of food and drink or invitations to meals hosted by Council partners.</p> <p>Should members wish to receive reports on the estimated value of such items this will be accommodated but at present levels it is not considered that these are material enough to warrant a regular committee report.</p>	Monitoring will continue through 2014-15 and reports will be made to Committee on request or on exception should the incidence of such gifts increase.

Appendix A: Action plan

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
2	Further strengthen the arrangements for the review of property assets not re-valued in year by formalising the discussions held with the Council's in-house valuation team to provide an independent assessment of the change in overall asset values for asset categories not re-valued in year.	Deficiency	<p>The property valuation team already take steps to ensure all assets are held at a value that reflects their current fair value, regardless of whether they were due to be revalued in the year or not.</p> <p>Where a new valuation is undertaken these are signed off by the valuer but no formal documents are completed to record the judgement that the remaining assets have not materially changed in value. This will be implemented in 2014-15</p>	<p>March 2015</p> <p>Asset Valuation Working Group</p>

Appendix A: Action plan – Information Technology

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	Responsibility of administering security within Capita Academy and Oracle Financials should be performed by system administrators. Password complexity should also be enforced within these systems.	Deficiency	<p>System security within Oracle Financials is already undertaken by system administrators. For academy the role is split between Revenue and Benefits staff and specialist administrators.</p> <p>Roles retained by Revenue and Benefits staff relate to system access and batch processing. These roles are retained to ensure that the processes are implemented promptly, and billing and payments relating to Council Tax and Business Rates are accurate.</p> <p>The Council has reviewed the administration of these arrangements and determined that the benefit of retaining local administration in terms of flexibility and responsiveness outweighs the benefits of centralising those functions.</p> <p>Password complexity for Academy is already in place because the system can only be accessed through Citrix. Passwords to both Citrix and core Oracle systems are subject to quality thresholds and mandatory monthly changes.</p>	Will be kept under review but at present no further action proposed

Appendix A: Action plan – Information Technology

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	<p>Batch processing arrangements for Oracle Financials and Capita Academy need to be further developed by:</p> <ul style="list-style-type: none"> • establishing policies and procedures covering batch administration, • monitoring and error handling; • ensuring system administrators are responsible for administration; • establishing a formalised change control process for modifying batch jobs and schedules; • Introducing a formalised batch processing monitoring process; • enabling the account lock out facility. 	Deficiency	<p>As described above batch administration for Academy is undertaken within the Revenues and Benefits team. In built controls and monitoring software ensure that separation of duties is maintained within the team and no user has the power to generate a payment and authorise it. An audit trail exists within the system that records all entries made by users allowing investigation of any suspicious or unusual entries. The account lockout facility was activated during 2013-14 and is already in operation.</p> <p>The wider recommendations made will kept under review and implemented where a risk/benefit assessment supports the need for further controls.</p>	<p>Partially already implemented and subject to ongoing review</p> <p>ICT Strategy</p>

Appendix A: Action plan – Information Technology

Priority

Significant deficiency – risk of significant misstatement

Deficiency - risk of inconsequential misstatement

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	Management should periodically perform formal reviews of user accounts and group membership assignments within Active Directory for appropriateness.	Deficiency	<p>Responsibility for ensuring that staff have access to the systems they need to do their jobs (and no others) sits with individual line managers and reliance is placed on this control.</p> <p>Cross cutting reviews are undertaken within sections of the Council to ensure that access to sensitive systems and information is restricted appropriately but at present there is no holistic process to review all accesses.</p> <p>The practicalities of carrying out a wider periodic review seeking confirmation from managers that relevant accounts and assignments are still valid will continue to be investigated between HR, ICT and CoSocius.</p>	<p>Subject to feasibility a review to be carried out prior to March 2015.</p> <p>HR/ICT Strategy</p>

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE WEST AND CHESTER COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Cheshire West and Chester Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, Hoursing Revenue Account and Collection Fund and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. This report is made solely to the members of Cheshire West and Chester Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's Members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of the Director of Finance and Resources and auditor

As explained more fully in the Statement of the Director of Resources Responsibilities, the Director of Resources 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Council circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Resources; and the overall presentation of the financial statements

In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Cheshire West and Chester Council as at 31 March 2014 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Council and the auditor

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Council has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Cheshire West and Chester Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

We certify that we have completed the audit of the financial statements of Cheshire West and Chester Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Robin Baker
Engagement Lead

for and on behalf of Grant Thornton UK LLP, Appointed Auditor
Royal Liver Building
Liverpool
L3 1PS

August 2014

Appendix C: Letter of Representation

Grant Thornton UK LLP
 Royal Liver Building
 Liverpool
 L3 1PS

xx August 2014

Dear Sirs

Cheshire West and Chester Council

Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with the audit of the financial statements of Cheshire West and Chester Council for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance.
- iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.

- vii. Except as stated in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Council has been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for.
- ix. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- x. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii. We have not adjusted the misstatements brought to our attention in the Audit Findings Report, as they are considered to be immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.
- xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiv. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

Appendix C: Letter of Representation

- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii. We have disclosed to you the entity of the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement
We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

Approval
The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on xx August 2014.

Signed on behalf of the Council

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....



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