

# The Audit Findings for Cheshire West and Chester Council

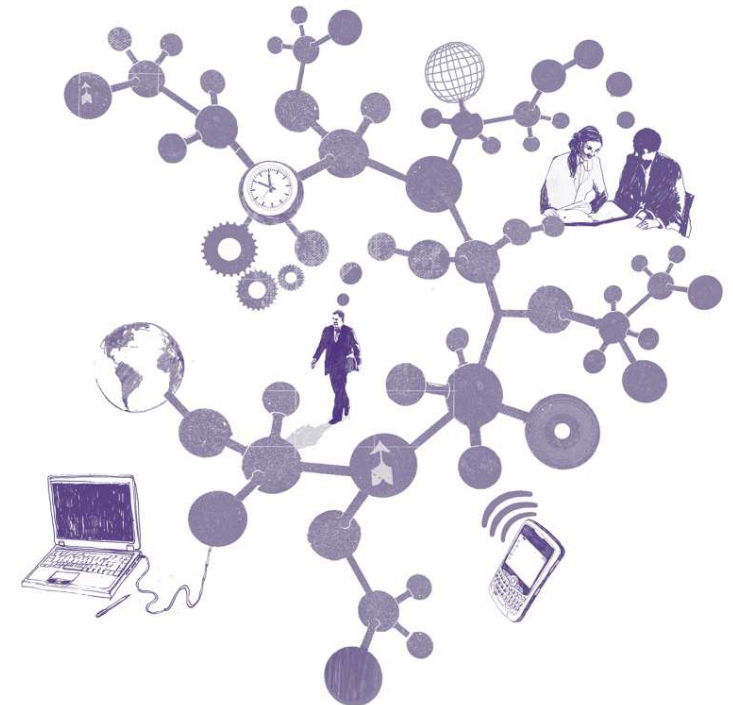
Year ended 31 March 2016

17 August 2016

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17 August 2016

Dear Members

**Audit Findings for Cheshire West and Chester Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance, the Audit and Governance Committee, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

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

Yours sincerely

Robin Baker

**Chartered Accountants**

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## **Appendices**

- A Action plan
- B Audit opinion

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# Section 1: Executive summary

**01. Executive summary**

**02. Audit findings**

**03. Value for Money**

**04. Other statutory powers and duties**

**05. Fees, non audit services and independence**

**06. Communication of audit matters**

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

## Purpose of this report

This report highlights the key issues affecting the results of Cheshire West and Chester ('the Council') and the preparation of the Group and Council's financial statements for the year ended 31 March 2016. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 3 March 2016. Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

## **Key audit and financial reporting issues**

### **Financial statements opinion**

We have identified no adjustments affecting the Group and Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £240.1m. The Council delivered an outturn underspend of £0.9m against its planned activity for the year. We have agreed a small number of adjustments to improve the presentation of the financial statements.

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

- as last year, the draft accounts were prepared to a good standard and were supported by comprehensive working papers;
- we were able to commence our audit as previously planned and agreed with the Council; and
- there are no significant amendments to the accounts as a result of our audit.

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

### **Other financial statement responsibilities**

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. There are no issues arising from our work in this area which we wish to bring to your attention.

## **Controls**

### **Roles and responsibilities**

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.

### **Findings**

Our work has not identified any material control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

## Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

The Council continues to face on-going financial pressures, but has in place effective arrangements to manage its finances and deliver a balanced outturn position. For 2015/16, an underspend of £0.9m was achieved. Taking a longer term view, the Council when approving the 2016/17 budget, also approved a four year budget plan to 2019/20. Overall for 2016/17 the Council agreed a Council Tax increase of 3.99% reflecting a 2% increase for social care and a 1.99% general increase. Savings required for 2016/17 total £15.7m which compares to actual savings delivered in 2015/16 of £15.5m.

The Council is continuing to progress two major regeneration developments at Barons Quay and Northgate both of which are progressing in line with the Council's plans. The Council continues to take professional advice on these projects and regularly reports to members. We will continue to monitor progress on both developments with officers.

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

## Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

## Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit and Governance Committee.

## The way forward

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

We have made one recommendation which is set out in the action plan at Appendix A, and relates to the earlier closedown of accounts from 2018. The recommendation has been discussed and agreed with the Director of Finance and the finance team.

## Acknowledgement

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**  
**17 August 2016**

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## Section 2: Audit findings

01. Executive summary

**02. Audit findings**

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

The draft accounts were prepared to a good standard and there are no significant amendments to the accounts as a result of our audit. We anticipate providing an unqualified opinion on the financial statements.



# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £13.195m (£13.34m for the Group Accounts) being 1.9% of gross revenue expenditure. We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £0.659m. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items where we decided that separate materiality levels were appropriate. These remain the same as reported in our audit plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£0
Disclosure of auditors' remuneration in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£0

# 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 (UK&I) 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><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheshire West and Chester Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Cheshire West and Chester Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have performed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• review of entity controls</li> <li>• testing of journal entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride 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 judgements.</p>

# Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>The expenditure cycle includes fraudulent transactions</b></p> <p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially where the body is required to meet targets.</p>	<p>Our existing audit procedures incorporate testing in all the main areas of the Authority's expenditure, as a result, we did not consider a need to perform any additional audit tests in respect of this risk. Our testing included:</p> <ul style="list-style-type: none"> <li>• schools expenditure which accounts for some 25% of expenditure and is addressed by our procedures within operating expenses</li> <li>• employee costs which is addressed by our procedures on employee remuneration (accounting for around 18% of expenditure)</li> <li>• supplies and services expenditure which is addressed by our procedures in response to this risk (accounting for some 30% of expenditure)</li> <li>• Service providers which is addressed by our procedures in response to this risk area (accounting for around 19% of expenditure)</li> <li>• other operating expenditure, which is made up of individually immaterial expenditure streams and so the risk of material error is deemed to be low.</li> </ul>	<p>Our audit work has not identified any issues in respect of fraudulent transactions within the expenditure cycle</p>
4.	<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>We have performed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated.</li> <li>• walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements.</li> <li>• review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>• gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p> <p>We received information from the Pension Fund auditors on 29 July 2016 confirming there were no significant issues arising from their work on the Pension Fund accounts which impact on Cheshire West and Chester Council.</p> <p>The overall net pension liability of the Council has decreased from £379.5m at 31 March 2015, to £226.8m at 31 March 2016.</p>

# Audit findings against other risks continued

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
<p><b>Employee remuneration</b></p>	<p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>substantive testing of payments made to employees during the financial year</li> <li>use of analytical techniques to compare expected payroll costs with actual costs</li> <li>review of payroll reconciliations including at the year end.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our substantive testing of a sample of 25 individuals paid throughout the year did not identify any issues with the accuracy of payments or the calculation of employer "on-costs".</p>
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>substantive testing of operating expenses covering the full financial year</li> <li>agreement of creditors to system balances and control account reconciliations</li> <li>review and substantive testing of year end accruals and creditor balances including confirmation that balances due have been settled after year end</li> <li>"Cut-off" testing to obtain assurance that creditors have been accounted for in the correct financial year.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified. Our work included:</p> <ul style="list-style-type: none"> <li>testing of a sample of 25 expenditure items which did not identify any issues relating to the accuracy or classification of expenditure</li> <li>review and substantive testing of a sample of 31 year end accruals and creditor balances which confirmed the validity and accuracy of balances, and that they had been correctly classified and recorded in the correct financial year</li> <li>testing of a sample of 24 payments made in 2016/17 to determine whether the associated expenditure was recorded in the correct financial year. Our work identified one amount of £34,042 recorded incorrectly in 2016/17. Further review by Finance staff including testing of all similar balances did not identify any further cases. This amount is considered trivial and no amendment has been made to the accounts.</li> </ul>

## Audit findings against other risks continued

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
<p><b>Welfare expenditure</b></p>	<p>Welfare benefit expenditure improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding</li> <li>• completion of the uprating checklist to ensure correct parameters are used to calculate welfare benefit payments</li> <li>• substantive testing of welfare benefits during the 2015-16 financial year</li> <li>• review of welfare benefit reconciliations including at the year end</li> <li>• analytical review of welfare benefit payments.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our substantive testing of a sample of 12 welfare benefit payments confirmed the accuracy of the benefit entitlement assessments completed by the Council and the payments made to claimants.</p>

## Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Valuation of property, plant and equipment</b></p>	<p>The Council revalues its assets on a rolling basis over a five year period .</p> <p>The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value.</p> <p>This represents a significant estimate by management in the financial statements.</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years.</p> <p>There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• review of management's processes and assumptions for the calculation of the estimate</li> <li>• review of the competence, expertise and objectivity of management experts used</li> <li>• review of the instructions issued to valuation experts and the scope of their work</li> <li>• discussions with the valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li> <li>• review of the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 13.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>In accordance with its planned programme of valuations, the Council re-valued £356.4m of its assets during 2015/16 out of a total of £744.5m. Our review of the Council's valuations arrangements, including the liaison arrangements with its valuers, did not identify any issues to report.</p> <p>We also reviewed the Council's valuation processes for IFRS13 in relation to investment properties which are now required to be valued at fair value. Our review of the arrangements did not identify any issues.</p>

# Group audit scope and risk assessment

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

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
<ul style="list-style-type: none"> <li>• Cheshire West &amp; Chester Leisure CIC (Brio)</li> <li>• Cheshire Provider Services (Vivo Care Choices) Trading Ltd</li> <li>• Cosocius Ltd</li> <li>• Avenue Services</li> <li>• Edsential CIC</li> </ul>	No	Analytical	Incomplete or incorrect consolidation.	We have agreed the consolidation schedules for the group accounts to the Associate's unaudited financial statements and management accounts.	Our audit work has not identified any issues in respect of the consolidation process.



## Significant matters discussed with management

	<b>Significant matter</b>	<b>Commentary</b>
1.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	There were no significant matters requiring discussion with management.



# Accounting policies, estimates and 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
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>Revenue from the provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.</li> <li>Council Tax and Non Domestic Rate income is recognised in the Collection Fund on an accruals basis, when it is due from the Council Tax or Non Domestic Rate payer. The Council's share of this income is recognised in the CIES.</li> <li>Government grants are recognised when there is reasonable assurance that the Council will comply with any conditions attached to the payments, and the grants or contributions will be received.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's policy is appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council.</li> <li>The accounting policy is appropriately disclosed in note 1 to the financial statements.</li> </ul>	
<p><b>Judgements and estimates</b></p>	<p>Key judgements and estimates include:</p> <ul style="list-style-type: none"> <li>useful lives of property, plant and equipment</li> <li>pension fund valuations and settlements</li> <li>revaluations and impairments</li> <li>provisions and accruals.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's accounting policies for key estimates and judgements are appropriate and consistent with the relevant accounting framework – the CIPFA Code of Practice on Local Authority Accounting (the CIPFA Code).</li> <li>The accounting policies are appropriately disclosed in notes 1 and 3 to the financial statements.</li> <li>Our audit testing of key estimates and judgements has considered the extent of judgement involved, the potential impact of different assumptions and the range of possible outcomes. We are satisfied that the key estimates and judgements are appropriate and adequately disclosed.</li> </ul>	




**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
		<ul style="list-style-type: none"> <li>To allow earlier closedown required by the Accounts and Audit Regulations from 2017/18, the Council will need to make greater use of estimates. We recommend the Authority start to consider the areas where estimates will be required during 2016/17 and develop appropriate procedures, including comparatives, to ensure estimates prepared are robust and are appropriately reviewed.</li> </ul>	
<b>Judgements - local authority maintained schools premises</b>	The Council's recognition criteria for schools non-current assets is determined by ownership and the rights of the legal owner. All Community Schools are recognised on the Council's balance sheet together with Voluntary Controlled and Voluntary Aided schools where the control criteria has been met. Academy Schools are not recognised on the Council's balance sheet.	<ul style="list-style-type: none"> <li>The Council has considered the content of the CIPFA Code of Practice and supplementary guidance, and has documented its judgement with supporting evidence.</li> <li>The Council's accounting policy for Schools non-current assets is clearly and fully disclosed in note 3 to the financial statements, and has been consistently applied.</li> <li>Our review of the accounting policy, accounting treatment and evidence to support the Council's judgement has not identified any issues which we wish to bring to your attention.</li> </ul>	
<b>Going concern</b>	The Director of Finance has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have written to the Chair of the Audit and Governance Committee in relation to the risk of fraud and have received a response. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send a number of confirmation requests. These have now all been received .</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
7.	<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a number of areas. These include:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>If the information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Authority acquired in performing our audit .</li> </ul> <p>We have not identified any issues we would be required to report by exception on in these areas.</p>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold, we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is currently on-going and we will report any findings to the Audit and Governance Committee.</p>

## 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. We considered and walked through the internal controls for Employee Remuneration, Welfare Expenditure and Operating Expenses as set out on pages 12 and 13 above.

The controls were found to be operating effectively and we have no matters to report to the Audit and Governance Committee, however, in last year's Audit Findings Report we identified a number of minor weaknesses in relation to the Council IT control environment relating to:

- the segregation of user roles within the Oracle system; and
- inappropriate access to business process controls.

We reported that these weaknesses could result in an increased risk that inappropriate postings may go undetected. The Council is working with its ICT service to review user access within Oracle and strengthen its arrangements. We understand improvements have been made during the year and remain on-going. We will continue to review the Council's progress as part of our planned programme of work during 2016/17.

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.

## Unadjusted misstatements

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

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 Expenditure cut off testing found an amount of £34,042 recorded as 2016/17 expenditure when it should be recorded in 2015/16. Further review by Finance staff including testing of all similar balances did not identify any further cases. This amount is considered trivial and no amendment has been made to the accounts.	£34	£34	The amount of £34,000 is considered to be trivial.
<b>Overall impact</b>	<b>£34</b>	<b>£34</b>	

## Misclassifications and 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	N/A	N/A	Note 31 - officer remuneration over £50,000. Our testing identified that the taxable element of severance pay was double counted resulting in items being included in the wrong pay bandings. This has now been corrected and note 31 amended.
2 Disclosure	N/A	N/A	There were a number of minor amendments to disclosure notes. These are disclosure only amendment with no impact on the income and expenditure position or balance sheet. Management have amended the disclosure notes.

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

We are satisfied that in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2016 and did not identify any significant risks. However we noted in our Audit Plan that whilst the Council continues to face on-going financial pressures, it continues to have effective arrangements in place to manage its finances and deliver a balanced outturn position.

For 2015/16, the Council achieved an underspend of £0.9m against a budget of £273.3m, while also delivering savings of £15.5m during the year. The impact of the underspend meant that the Council could add £1.7m to its General Fund rather than the budgeted contribution of £0.8m initially planned, increasing the General Fund to £23.5m at the year end.

Taking a longer term view, the Council when approving the 2016/17 budget, also approved a four year budget plan to 2019/20. For 2016/17, the Council agreed a Council Tax increase of 3.99% reflecting a 2% increase for social care and a 1.99% general increase. Savings required for 2016/17 total £15.7m whilst there remains an overall funding gap over the four years of £57.2m.

The Council has delivered savings over the last few years by delivering radical changes to the way in which services are delivered including the use of arms length companies. In 2015-16, two new companies were set up, CoWest Services Ltd which delivers business support functions across the Council whilst Edsential CIC provides traded services to schools. The Council also following a review during the year, decided to close CoSocius Ltd and bring back in-house its services from 1 April 2016. The company was set up in 2014 to provide back office support services to Cheshire West and Chester Council and Cheshire East Council and in-house provision is now considered the best way to deliver these services for the future. The Council continues to take on board any learning opportunities from its use of companies.

Looking ahead, the Council will need to continue to explore new and innovative ways of working to deliver services, whilst bridging the £57.2m funding gap over the next four years. This funding gap may well constrain the Council's ability to deliver new commitments.

The Council is continuing to progress two major regeneration developments at Barons Quay and Northgate both of which are progressing in line with its plans. In particular, significant progress has been made in relation to Barons Quay in Northwich which has resulted in capital expenditure of £27.5m during the year. The Council continues to take professional advice on both projects and regularly reports to members. We will continue to monitor progress on both developments with officers.



The Council also continues to work closely with its partners in the NHS including West Cheshire CCG and Vale Royal CCG in a number of areas including the Better Care Fund (BCF). The BCF is a local single pooled budget to enable the better delivery of health and social care for local people. During 2015/16, the Council received £10.6m from the pooled budget and this was used to fund a number of initiatives in collaboration with the two CCGs.

We have updated our risk assessment during the final accounts audit and by regular meetings with senior management, continuing to review relevant documents including minutes of meetings up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Authority's arrangements for delivering economy, efficiency and effectiveness.

In arriving at our conclusion, our main considerations were:

- As in previous years, the Council delivered an underspend position for 2015/16 with a year end outturn underspend of £0.9m. This was in line with the Authority's expectation for 2015/16.
- For 2016/17, the Authority approved its budget on 25 February 2016 as well as a four year budget plan. Overall for 2016/17, the Council set a net budget of £274.0m which includes a Council Tax increase of 3.99% reflecting a 2% increase for social care and a 1.99% general increase. Savings required for 2016/17 total £15.7m which management consider achievable. There is no planned use of general reserves in 2016/17. The budget aims to deliver a year end break even position.
- Considered the Council's Medium Term Financial Plan covering the period 2016/17 to 2019/20 which incorporates the comprehensive spending review and the future financial challenges faced by the Authority.
- The Council's committee structures which enable a clear focus on the Authority's policies and monitoring of performance. The Authority has an effective strategic and financial planning process which includes rigorous review and challenge by members. Recent changes have further developed the scrutiny arrangements in place with a new governance structure from July 2016.

- The Council is continuing to progress two major regeneration developments at Barons Quay and Northgate and continues to take professional advice on both projects and regularly reports to members.

### **Overall conclusion**

Based on the work we performed to address the significant risks, we concluded that Cheshire West and Chester Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

### **Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

### **Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

### **Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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## Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

**04. Other statutory powers and duties**

05. Fees, non audit services and independence

06. Communication of audit matters

There has been no need for us to exercise our statutory powers or duties during the year

## Other statutory powers and duties

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We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	<b>Issue</b>	<b>Commentary</b>
1.	<b>Public interest report</b>	<ul style="list-style-type: none"><li>• We have not identified any matters that would require a public interest report to be issued.</li></ul>
2.	<b>Written recommendations</b>	<ul style="list-style-type: none"><li>• We have not made any written recommendations that the Authority is required to respond to publicly.</li></ul>
3.	<b>Application to the court for a declaration that an item of account is contrary to law</b>	<ul style="list-style-type: none"><li>• We have not made any application to the court.</li></ul>
4.	<b>Issue of an advisory notice</b>	<ul style="list-style-type: none"><li>• We have not issued an advisory notice.</li></ul>
5.	<b>Application for judicial review</b>	<ul style="list-style-type: none"><li>• No application for a judicial review has been made.</li></ul>

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## Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

There has been no change to the agreed audit fee and no independence issues have arisen.

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

### Fees

	Proposed fee £	Final fee £
Council audit	153,152	153,152
Grant certification	19,802	19,802
<b>Total audit fees (excluding VAT)</b>	<b>172,954</b>	<b>172,954</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

### Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

### Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Certification of Teachers Pension Return	TBC
• Certification of Housing Capital Receipts Pooling Return	TBC

In addition, we have set out below our fees where we have undertaken work at companies where the Council has a shareholding.

Other	Fees £
<b>Audit services:</b>	
• Audit of accounts for Cheshire Provider Services (Vivo Care Choices)	14,750
• Audit of accounts for CoSocius	15,800

### 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.

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

**06. Communication of audit matters**

# Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 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 Public Sector Audit Appointments Limited (<http://www.psa.a.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant matters in relation to the Group audit including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud.	✓	✓

# Appendices



# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	<p>Earlier closedown required by the Accounts and Audit Regulations 2015 will require councils to prepare draft accounts for 2017/18 by 31 May 2018.</p> <p>To allow earlier closedown, Cheshire West and Chester Council will need to make greater use of estimates in preparing its draft accounts. We recommend the Authority start to consider the areas where estimates will be required during 2016/17 and develop appropriate procedures, including comparatives, to ensure estimates prepared are robust and are appropriately reviewed.</p>	Low	<p>The Council is aware of the requirement to prepare the draft accounts to an earlier timetable for 2017-18. The Council has been preparing for this over the last 12 months and will be seeking to produce the 2016-17 accounts by 31 May 2017 (12 months in advance of the required timetable). An action plan for accelerating the closure process has been produced and this plan includes reviewing the use of estimates where this is considered appropriate.</p>	<p>Corporate Technical Accountant</p> <p>2016/17 Single entity accounts to be ready for audit by end of May 2017.</p> <p>2017/18 Single entity and Group accounts ready for audit in accordance with deadline</p>

# Appendix B: Audit opinion - draft

**We anticipate we will provide the Group/Council with an unmodified audit report or amend as appropriate**

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

We have audited the financial statements of Cheshire West and Chester Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 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 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.

### **Respective responsibilities of the Chief Finance Officer and auditor**

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer 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 2015/16, which 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 Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement 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:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

## **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the Group audited financial statements.

## **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

**Respective responsibilities of the Authority and auditor**

The Authority 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 20(1)(c) of the Act 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.

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects *the Authority* has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Certificate**

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

[Signature] – to be inserted

Robin Baker  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
Liverpool  
L3 1PS

[Date] – to be inserted



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