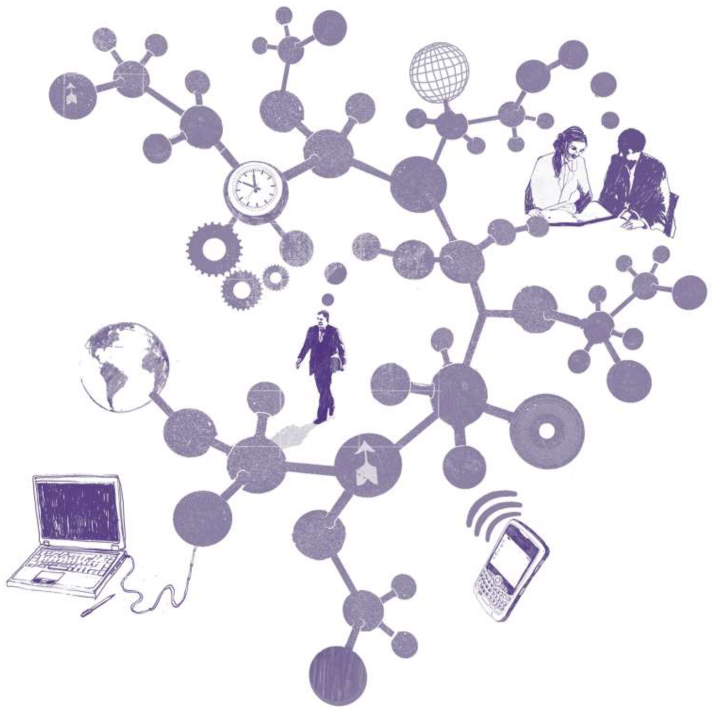
The Audit Findings for Cheshire West & Chester Council

Year ended 31 March 2017

14 August 2017



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Private and Confidential

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14 August 2017

Dear Members

Audit Findings for Cheshire West & Chester Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Cheshire West & Chester Council, the Audit and Governance Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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

Engagement lead

Contents

Section 1: Executive summary

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 & Chester Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council and Group acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 13th March 2017.

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 management letter of representation
- reviewing the revised version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion, and
- completing work on the Whole of Government Accounts.

We received draft financial statements and accompanying working papers before the end of May, these early closedown procedures will help ensure the audit is completed by the earlier statutory deadline next year of 31 July.

Key audit and financial reporting issues

Financial statements opinion

The draft financial statements for the year ended 31 March 2017 recorded net cost of services of £281,065k. We identified two adjustments from our audit work:

- the valuation basis of two assets affecting the group and Council's reported financial position amounting to £4,065k. This adjustment has no impact on the net cost of services but reduces financing and investment income and expenditure by £4,065k whilst increasing the surplus on revaluation of assets by the same amount; and
- the inclusion of internal recharges within gross Cost of Services expenditure and income amounting to £41,402k due to late guidance. This adjustment affects the group and Council's reported financial position but again has no impact on the net cost of services. Both Cost of Services expenditure and income have been reduced by the same amount.

Further details are recorded in section two of this report. Overall, following these adjustments, the audited financial statements show net cost of services of £281,065k and total comprehensive income and expenditure of £55,814k, the same as the draft accounts presented for audit.

We have also agreed a number of other minor adjustments to improve the presentation and disclosure of the financial statements.

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

- the draft financial statements were provided to the audit team in advance of the statutory audit deadline
- the accounts were supported with comprehensive working papers
- we were able to commence our audit as previously planned and agreed with the Council.

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 AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

Other Statutory Powers and Duties

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

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

We draw your attention to IT control issues relating to the segregation of duties within the Oracles system and the appropriateness of access to specific default accounts. These issues were also identified from our work last year.

Whilst we aware officers are working to strengthen the IT control arrangements in place, the weaknesses identified should be resolved at the earliest opportunity. 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 2016/17, savings of some £14m were delivered against expenditure of £274.9m resulting in an outturn underspend of £1.5m at the year end. For 2017/18, the Council agreed a Council Tax increase of 3.99% reflecting a 2% increase for social care and a 1.99% general increase. A funding gap of £43m has been identified for the period 2017-2020 of which £13.3m relates to 2017-18. Whilst considered challenging, the Council considers the savings target realistic and achievable.

The Council is continuing to progress two major regeneration developments at Barons Quay and Northgate both of which are progressing well. The Council continues to take professional advice on these projects and regularly reports to members. In addition, the Storyhouse Cultural Centre was handed over to the Council following completion in March 2017. In total, the Council invested £37m in this development over the last few years. We will continue to monitor progress on major regeneration 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 2017. 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 Corporate Services.

We have made one recommendation which is set out in the action plan at Appendix A, and relates to the strengthening the IT control environment relating to system access segregation of duties and default accounts. The recommendation has been discussed and agreed with 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
14 August 2017

Section 2: Audit findings

The draft accounts were prepared to a good standard. 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 ISA (UK&I) 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 £13,066k being 1.9% of gross revenue expenditure (£13,233k for Group Accounts). We have considered whether this level remained appropriate during the course of the audit and identified, on receipt of the draft financial statements, an increase in gross revenue expenditure which led us to revise our overall materiality to £14,410k being 1.9% of gross revenue expenditure (£14,615k for Group Accounts).

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 £653k (£662k for Group Accounts). Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation. The triviality level used for the audit of the financial statements was £721k (£731k for Group Accounts).

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
Related Party Transactions	Due to public interest in these disclosures. Any individual misstatements identified would also be evaluated with reference to how material they are to the other party.	£20k
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
The revenue cycle includes fraudulent transactions Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheshire West & Chester Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • for Cheshire West & Chester Council, opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Cheshire West & Chester Council, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any issues in respect of revenue recognition.
Management over-ride of controls Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have performed the following work in relation to this risk: • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions.	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 controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Valuation of property, plant and equipment The Council revalues its assets on a rolling basis over a five year period. Where values are indicated to have changed outside of this period, the Council brings forward the valuation. The Council performed its 5 year full revaluation of it Housing Stock in 2016-17. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.	• Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.	Our evaluation of the valuation experts and challenge of key assumptions applied highlighted no significant issues. We tested a sample of 33 General Revenue Account Assets as well as a sample of 9 Housing Revenue Account Assets. We also reviewed the Council's assessment of the difference between the carrying value and current value of assets not revalued. Our audit procedures did not identify any significant issues in relation to the risk identified.
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.	• Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation • 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 • Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.	Our review of the competence, assumptions and methodologies applied by the actuary highlighted no significant issues. The work performed by the pension fund auditor did not identify any significant issues in relation to the risk identified.

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
Employee remuneration	Payroll expenditure represents a significant percentage of the Council's gross expenditure. We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention: • Employee remuneration accruals understated (Remuneration expenses not correct).	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • substantive testing of payments made to employees during the financial year • use of analytical techniques to compare expected payroll costs with actual costs • review of payroll reconciliations including at the year end.	Our documentation and walkthrough of key controls, analytical review of expected payroll costs and review of payroll reconciliations highlighted no issues. We also tested a sample of 36 payments made to employees during the financial year and identified no significant issues in relation to the risk identified.
Changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.	We have undertaken the following work in relation to this risk: • documented and evaluated the process for the recording of the required financial reporting changes to the 2016/17 financial statements • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.	Our review of the re-classification of the CIES and reconciliation to the new EFA note was found to be in line with the Code requirements. However, our work identified the Council had included internal recharges within the gross Cost of Services expenditure and income amounting to £41,402k. This error arose due to late guidance on the EFA note and has been corrected by Officers in both the group and Council's accounts. This adjustment has no impact on the net cost of services or total Comprehensive and Income and Expenditure for the year. Our testing of 72 items of operating expenditure and 27 items of income did not identify any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs. We identified the completeness of non- pay expenditure in the financial statements as a risk requiring particular audit attention: • Creditors understated or not recorded in the correct period (Operating expenses understated).	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding • substantive testing of operating expenses covering the full financial year • agreement of creditors to system balances and control account reconciliations • review and substantive testing of year end accruals and creditor balances including confirmation that balances due have been settled after year end • "Cut-off" testing to obtain assurance that creditors have been accounted for in the correct financial year.	Our audit included the testing of a sample of 72 items of operating expenditure, a sample of 18 creditor/accrual items and a sample of 22 items of expenditure for cut- off. There were no significant issues identified in relation to the risk identified. There was one error found on the creditor/accruals testing which related to the overstatement of the creditor balance by £134k (more details provided on page 20). Further work undertaken by officers has confirmed this was an isolated error. Overall, this was not deemed to be a significant issue in relation to the risk identified of understatement of creditors.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and we are satisfied with their assessment that the going concern basis is appropriate for the 2016-17 financial statements.

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	Work completed	Assurance gained & issues raised
Cheshire West & Chester Council	Yes	Comprehensive	Full scope UK statutory audit performed by Grant Thornton	Our audit work has not identified any issues in respect of the risks on pages 10 to 13.
• Cheshire West & Chester Leisure CIC (Brio) • Cheshire Provider Services (Vivo Care Choices) • Avenue Services (NW) Limited • Edsential CIC	No	Analytical	Desktop review performed by GT UK including a review of the consolidation process, agreement of separate entity figures to their own draft financial statements and an analytical review of the Group financial statements to identify any significant variances.	Our audit work has not identified any issues in respect of the consolidation of the separate entities into the group accounts.

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
Revenue recognition	• 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 • 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 • 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.	• 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) • The main elements of the Council's revenues are predictable and there is minimal judgement required from the Council • The accounting policy is appropriately disclosed in note 1 to the financial statements.	●
Judgements and estimates	• Key estimates and judgements include: – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions.	• 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) • The accounting policies are appropriately disclosed in notes 1 and 5 to the financial statements • 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.	●

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
Judgements - changes to the presentation of local authority financial statements	CIPFA has been working on the 'Telling the Story' project to streamline the financial statements and improve accessibility to the user and this resulted in changes to the 2016-17 CIPFA code of Practice The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015-16 comparative figures was also required.	The documentation of our work performed in relation to the changes to the presentation of local authority financial statement is detailed on page 12. We are satisfied that the judgement applied is appropriate and is adequately disclosed in the financial statements.	●
Judgements - local authority maintained schools premises	The Council's recognition criteria for schools non-current assets is determined by ownership and the rights of the legal owner. All Community and Foundation Schools are recognised on the Council's balance sheet. Voluntary Controlled and Voluntary Aided Schools are only recognised where they meet the necessary criteria of access to services and control under IAS16. Academy Schools are not recognised on the Council's balance sheet.	• The Council has considered the content of the CIPFA Code of Practice and supplementary guidance, and has documented its judgement with supporting evidence • The Council's accounting policy for Schools non-current assets is clearly and fully disclosed in note 1 to the financial statements, and has been consistently applied • 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.	●
Going concern	The Director of Corporate Services, s151 officer 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 2016/17 financial statements.	●
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	●

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.	**Matters in relation to fraud**	• We have written to the Chair of the Audit and Governance Committee in relation to the risk of fraud. 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.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• 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.
4.	**Written representations**	• A standard letter of representation has been requested from the Council.
5.	**Confirmation requests from third parties**	• We requested from management permission to send a number of confirmation requests. These have now all been received .
6.	**Disclosures**	• Our review found no material omissions in the financial statements
7.	**Matters on which we report by exception**	• We are required to report on a number of matters by exception in a number of areas: We have not identified any issues we would be required to report by exception in the following areas • 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 • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
8.	**Specified procedures for Whole of Government Accounts**	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. As the Council exceeds the specified group reporting threshold of £350m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • This work is not yet completed and the planned timescale for completion is September 2017.

Internal controls

	Assessment	Issue and risk	Recommendations
1.	●	**IT Audit Findings** Segregation of duties is a fundamental principle of control. It requires that record keeping, custody of assets; authorisation and reconciliation processes are not performed by the same person. We performed a review of the access rights, known as responsibilities, assigned to users within Oracle E-Business Suite. There were several instances of high-risk segregation of duties conflicts identified Our IT audit team also found several other deficiencies in the IT internal controls relating to use of default accounts/responsibilities, users with 'process tab functionality' and databases.	• A review of configuration of all responsibilities in use within Oracle EBS should be undertaken. This review should be driven by the business with IT support. We have provided the Oracle system administrator with the detailed outputs of our work to facilitate this. Responsibilities should be redesigned to reduce the number of segregation of duties conflicts within the system (Inherent conflicts). • Where management have decided to accept the risk of the segregation of duties conflicts, this should be formally documented. • Management should review the IT audit report findings and consider implementing the recommendations made for each deficiency identified

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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 being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

Two adjustments to the draft accounts have been identified during the audit process. 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 in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1	Financing & Investment Income and Expenditure	(£4,065)	£0
	Surplus on Revaluation of Assets	£4,065	£0
	During our sample testing of the valuations applied to Investment Properties per Note 16 to the financial statements we identified 2 assets which had been valued on a basis consistent with operational property as opposed to investment property. These assets did not fit perfectly into either classification however the valuation basis applied to them was not consistent with the requirements of the CIPFA Code for Investment Property. As such it was agreed with management to amend the classification of the assets to that of Operational Property (Note 14 of the financial statements).		
2	Gross Expenditure – Cost of Services	£41,402	£0
	Gross Income – Cost of Services	(£41,402)	£0
	Our work identified the Council had included internal recharges within the gross Cost of Services expenditure and income amounting to £41,402k. This error arose due to late guidance on the EFA note and has been corrected by Officers.		
	Overall impact	**£0**	**£0**

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	Overstatement of creditor balance identified during the sample testing. The item had been included in month 12 expenditure as well as being accrued for during year end procedures.	0	£134	The amount is not considered material to the Authority's financial statements.
	Overall impact	**£0**	**£134**	

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	Misclassification	£5,000	Short Term Liabilities	No impact on financial statements, liability incorrectly classified as short term borrowing in the draft financial statements has been amended to short term creditors.
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.

Section 3: Value for Money

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 2017

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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

> *In all significant respects, the audited body takes properly informed decisions and deploys 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 2017 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 2016/17, the Council achieved an underspend of £1.5m against a budget of £274.9m, while also delivering savings of £14m during the year. The impact of the underspend meant that the Council could add £1.5m to its General Fund increasing the General Fund to £25.0m 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 2017/18, the Council agreed a Council Tax increase of 3.99% reflecting a 2% increase for social care and a 1.99% general increase.

A funding gap of £43m has been identified for the period 2017-2020 of which £13.3m relates to 2017-18. Whilst considered challenging, the Council considers the savings target realistic and achievable.

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. These companies include:

- CoWest Services Ltd which delivers business support functions across the Council (set up in 2015/16)
- Edsential CIC which provides traded services to schools (set up in 2015/16)
- CoSocius Ltd which provided back office support services to Cheshire West and Chester Council and Cheshire East Council (set up in 2014/15).

The Council decided to close CoSocius Ltd and bring back in-house its services from 1 April 2016. In-house provision is 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 to ensure delivery models remain appropriate and effective.

Looking ahead, the Council will need to continue to explore new and innovative ways of working to deliver services, whilst bridging the £43m funding gap over the next three years to 2019/20. 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. Some £24.5m has been spent on these developments during the year. In addition, the Storyhouse Cultural Centre was completed in March 2017 after a total investment of £37m of which £13.7m was spent during the year. The Centre opened in May 2017 to the public and delivers one element of the Council's regeneration strategy for Chester.

The Council continues to take professional advice on major development projects and regularly reports to members. We will continue to monitor progress on 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 Better Care Fund is a single pooled budget allowing local authorities and the NHS to work more closely together around people, placing their wellbeing as the focus of health and care services. The Council received £11m 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 Council'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 2016/17 with a year end outturn underspend of £1.5m. This was in line with the Authority's expectation for 2016/17
- For 2017/18, the Authority approved its budget on 2 March 2017. Overall, the Council set a net budget of £271.3m 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 2017/18 total £12.1m which management consider achievable. 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 the 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.

Section 5: Fees, non-audit services and independence

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	27,488	27,488
Total audit fees (excluding VAT)	**180,640**	**180,640**

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'.

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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Audit related	
Certification of Teachers Pension Return	TBC
Certification of Housing Capital Receipts Pooling Return	TBC
Audit of accounts for Cheshire Provider Services (Vivo Care Choices)	13,950
Audit of accounts for Cosocius	TBC

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?	Safeguard
Audit related services				
	Audit of accounts for Cheshire Provider Services (Vivo Care Choices)	£13,950	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist.	None required
	Audit of accounts for Cosocius	TBC	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist.	None required
Non-audit services				
	Certification of Teachers Pension Return	TBC	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist.	None required
	Certification of Housing Capital Receipts Pooling Return	TBC	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist.	None required
	TOTAL	TBC		

Section 6: Communication of audit matters

Communication to those charged with governance

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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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.psaa.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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
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

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	Strengthen the IT control environment relating to systems access segregation of duties and default accounts as set out in the Internal Controls Section – Page 18.		The default accounts have been deactivated in the Oracle financial system and further understanding of how Grant Thornton has identified them as remaining as a risk needs to be undertaken this year. Work has been on-going for a number of years within finance to review all finance responsibilities and will as part of the transition to Best 4 Business continue and where there is a risk or conflict for segregation of duties those responsibilities will be removed or managed on a risk basis. IT Shared Services has been working with the auditors since 2014/15 on mitigating/removing the issues raised and will continue to do so in the coming years and this is evidenced by previous years finding no longer identified within the current finding report. Further work by finance has also been undertaken to evaluate the identified conflicts from the previous year's findings report by Grant Thornton and the impact of wider system controls such as workflow approvals or off system controls. Each conflict has been RAG rated; the majority being deemed low, work will continue in line with the cleansing of the system in readiness for moving to Best 4 Business."	Corporate Finance Manager – Technical By December 2017

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

B: Draft Audit opinion

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

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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement 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 2016/17.

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 Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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, the Group Overview, 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 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report, the Group Overview, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

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

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

Respective responsibilities of the Authority and auditor

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

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 Authority has put in place proper arrangements for securing 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 issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

To Insert Signature

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

Royal Liver Building
Liverpool
L3 1PS

xx September 2017