Audit Findings

Year ending 31 March 2018

Cheshire West and Chester Council

12 July 2018

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Headlines

This table summarises the key issues arising from the statutory audit of Cheshire West and Chester Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 16. We have identified no adjustments to the financial statements that have resulted in a change to the Statement of Comprehensive Income and Expenditure. We have recommended a number of presentational and disclosure changes. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Subject to the remaining work being completed, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 25 July 2018, as detailed in Appendix E. These outstanding items include: - work in progress on: confirming cash balances, verifying employee remuneration, completeness of the pensions liability, housing benefits payments, and sensitive and high risk journal adjustments. We expect to complete this work in good time for the meeting on 25 July and the results to date suggest we will have no issues to report. - The final report of our IT audit team. - receipt of management representation letter; and - review of the final set of financial statements and WGA return. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Cheshire West and Chester Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 20.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Acknowledgements

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.

Summary

Financial statements

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an analytical only approach was required for the components.
- Substantive testing of the material accounts and balances of the Council

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding matters being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 25 July 2018 , as detailed in Appendix E These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements and whole of government accounts

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality calculations remain the same as reported in our audit plan.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	13.829 million	13.623 million	Materiality has been based on 1.9% of the Council's gross expenditure. This is considered an appropriate benchmark because the Council's stakeholders will be interested in how it has used resources to deliver services.
Performance materiality	10.372 million	10.218 million	Our performance materiality is set at 75% of our financial statements materiality; this enables to sufficiently detail and coverage across our audit testing.
Trivial matters	691,000	682,000	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for specific transactions, balances or disclosures	20,000	20,000	Officer remuneration and termination benefits are sensitive items over which stakeholders will expect the Council to take particular care.

Going concern

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Our responsibility

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) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management's process has included • Consideration of external factors and perspectives including the legislative framework under which the Council operate • Internal perspectives including the Council's business planning and budget setting process • Consideration of Common risk factors that would indicate a risk to going concern	• Management's assessment of use of going concern basis of accounting is appropriate to the Council circumstances. • Management's assessment included quantitative and qualitative aspects of risks to going concern. • Management's assessment has been prepared and reviewed by suitably senior members of the finance team.
Work performed	**Auditor commentary**
• We reviewed managements assessment against the requirements of the Code and considered whether its conclusions where consistent with the findings of our audit work and value for money conclusion work.	• Management's assessment concluded that it is appropriate to prepare the financial statements on a going concern basis • We identified no material uncertainty
Concluding comments	**Auditor commentary**
	• Our audit opinion will be unmodified.

Significant audit risks

Financial Statements

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) 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.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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 – opportunities to manipulate revenue recognition are very limited – the culture and ethical frameworks of local authorities, including Cheshire West and Chester Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Cheshire West and Chester Council.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** • Our work included: – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of accounting estimates, judgements and decisions made by management – review of unusual significant transactions – review of significant related party transactions outside the normal course of business Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The Council revalues its land and buildings on an quinquennial basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** Our work included: • 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. The Council's accounting policy for Investment Properties is that they are reported at fair value at each reporting date, This is a requirement of the Code, 4.4.2.12 . Within the notes to the financial statements it states that Investment Properties are included in the five year rolling programme and additionally where assets have a value greater than £9m or where any trigger events occur during the year, (such as rent reviews, lease renewals, significant capital spend on the asset) then these assets are added to the list of assets to be formally valued by the valuation team. Not all investment properties are formally valued on a fair value basis every year. This is not compliant with the Code. The finance team have reviewed the outcome of this year's valuation programme; just on 40% of Investment Properties by value or 29% by number, have been revalued this year. Had those Investment Properties not revalued incurred the same change in value as the portfolio average, the difference in value would be -£1.3m and not material. We have reviewed this exercise and are satisfied with its findings. This retrospective exercise will only provide assurance if the rolling programme includes a sufficient number of high value assets. Our substantive testing of the Investment Property valuations revealed that a substantial number are relatively low value items for which regular revaluations might be considered disproportionate, for example from a sample of 15 properties, 4 had a value of less than £50,000, the lowest being a plot of land with a value of just £6,000. The Council should: • Review its practise for valuing Investment Properties to ensure it complies fully with the Code requirements • Review its Investment Property portfolio and consider if the classification of assets within the portfolio remains appropriate. See Appendix A

Significant audit risks

Financial statements

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** Our work included: • Identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed 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. At the time of drafting this report our work was still in progress. We expect to complete this before the Committee meeting and will provide a verbal update. Based on progress to date, we do not expect to have any issues to report.

Reasonably possible audit risks

Financial statements

	Risks identified in our Audit Plan	Commentary
7	**Employee remuneration** Payroll expenditure represents a significant percentage (37%) of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** 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 the whether those controls were in line with our documented understanding • Performed substantive analytical procedures on the completeness of employee remuneration • Substantively tested senior officer remuneration and members allowances agreeing back to source data. Our audit work identified no issues relevant to our opinion or that we wish to bring to your attention
8	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage 34% of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • Substantively tested a stratified sample of 47 transactions for months 1-9 representing £15.231 million of expenditure • Completed substantive analytical procedures on expenditure for months 10-12 • Substantively tested a sample of 18 creditor balance representing some £21.721 million of liabilities Our audit work identified no issues relevant to our opinion or that we wish to bring to your attention

Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

	Issue	Commentary	Auditor view
1	**Expenditure and Funding Analysis** • The Expenditure and Funding Analysis (EFA) in the draft accounts, included the minimum requirements of the Code 3.4.2.97, disclosing outturn expenditure, the net expenditure charged to general fund, adjustments between funding and accounting and the net expenditure in CIES. The supporting note showed the adjustments between funding basis and accounting basis broken down by types as required by Code 3.4.2.98.	• Net expenditure as disclosed in the outturn was £275.9 million and net cost of service expenditure charged to general fund £192.4 million. There was no explanation for the movement between these two figures.	The Code does not explicitly state that an explanation of these adjustments is required, however this is inconsistent with the inclusion of adjustments between funding and accounting and the net expenditure in CIES. We discussed this with management who agreed to include an additional column within the EFA to explain this difference.
2	**Application of the depreciation policy** • The accounting policy note explains that leased assets are treated differently from purchased assets in that they are depreciated from the start of the lease whereas purchased assets are not depreciated in the year of acquisition.	• Code paragraphs 4.1.2.41 and 4.1.2.42, require assets to be depreciated from when they become available for use and to be depreciated when in use except when its residual value is greater than its carrying value. The Code does not distinguish between leased or owned assets.	The current policy is not compliant with the Code. This non-compliance is unlikely to result in a material error in the depreciation charge because it would require the acquisition of an asset on 1 April that is many times materiality in value. However there s a risk of repeated errors above the clearly trivial threshold. Management has reviewed the capital additions in the year and confirmed that there is no material error in the financial statements. The Council should review its practice on charging depreciation to ensure it complies with the Code. See Appendix A
3	**Changes to the draft accounts not related to our audit work** • Subsequent to issuing the draft accounts, the Council received updated information relating to – the return achieved on pensions fund assets that had the effect of increasing the pensions fund asset base by £33.4 million – late notified in-year adjustments reduced the Dedicated Schools Grant by £403,000	• We do not regard these changes as arsing from errors or misstatements but in stead view them as normal accounting adjustments as new and more relevant information becomes available.	We will agree the changes to source documentation as part of our overall review of the final version of the financial statements

Other issues

Financial statements

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

	Issue	Commentary	Auditor view

4	**IT Audit Findings**
	• We have revisited the IT control environment, as reported last year 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 other deficiencies in the IT internal controls relating to:
	  • use of default accounts/responsibilities,
	  • users with 'process tab functionality'
	  • Updating and application of policies and procedures and
	  • databases.
		• Our IT audit team have risked rated their findings for sharing with officers.
		• Findings in relation to Oracle systems were shared in May
		• Only segregation of duties was considered to represent a risk of misstatement for the financial statements.
			Auditor view
			The findings of our IT audit team are broadly the same as last year. Recommendations have been made to address the identified control weaknesses and these are with management for consideration before agreeing the final report. As was noted last year, much of the work to address these weaknesses will be covered by the scoping and system design for Best 4 Business. Therefore we are making no new specific recommendations in respect of these weaknesses and refer you to Appendix B where we describe progress made against last year's recommendation.

Accounting policies

Financial statements

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income and expenditure is accounted for in the year the activity it relates to takes place on an accruals basis. This means income is recorded when it is earned not received and expenditure when it is incurred not when it is paid. • Sales, fees, charges and rent due from customers are accounted for as income at the date the Council supplies the relevant goods and services • Supplies are recorded as expenditure when they are consumed, where there is a gap between their purchase and consumption they are carried as inventory on the balance sheet • Rents for council houses - these are due in full on the date the weekly debit is raised. No receipt in advance is recorded for any part of the debit raised in the last week of March that relates to a period after 31 March. • The Council Tax income included in the Comprehensive Income and Expenditure Statement is the Council's share of the Collection Fund's accrued income for the year. Council Tax income credited to the Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and paid out to major preceptors. The amount credited to the General Fund under statute is a Council's precept or demand for the year plus or minus the Council's share of the surplus/deficit on the Collection Fund for the previous year as estimated in January of the financial accounting year. • The NDR income reflected in the Collection Fund represents the total accrued income for the year for the Cheshire West area; this includes allowances for non-collection and any repayments which may be required due to appeals. The Council is entitled to receive 49% of this income (with 50% being due to Central Government and 1% to Cheshire Fire) and this is reflected in the Comprehensive Income and Expenditure Statement.	• The accounting policies for revenue recognition are appropriate under the accounting framework set out in the CIPFA Code of Practise on Local Authority Accounting in the UK and the statutory requirements for Local Government. • There is limited need for the Council to exercise judgement when applying these policies because the vast majority of transactions will be settled by the reporting date or shortly thereafter. • The accounting policies are adequately disclosed in the financial statements and given prominence within the Accounting policies note. • The accounting policies are consistent with those of similar authorities.	●

Assessment

- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies

Financial statements

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	• PFI Schemes – The Council has two PFI contracts, one for provision of schools and one for extra care housing. The Council has determined that it substantially controls both the services provided from and the residual value of the assets used to deliver these contracts. Therefore, the assets relating to these contracts have been recognised on the Balance Sheet as property, plant and equipment, in accordance with IFRIC 12. • Group Boundary – The nature of the Council's relationship with external companies has been assessed under IFRS 11, IAS 27 and IAS 28. The Council has identified all entities within the group boundary and consolidated those that are material in the context of the Council's financial statements or when not quantitatively material where it was considered appropriate for transparency and accountability. • Treatment of Schools – The Council follows the CIPFA Code of Practice on the recognition of schools tangible assets on its balance sheet, however where the school or governing body own the assets or rights to use the assets, the Council has concluded it does not meet the control criteria within the Code. • Treatment of Academies – By 31 March 2018 twenty six Academies had been created from schools which were formerly funded by Cheshire West and Chester Borough. All buildings that were formerly held by the Council have been leased over to the new Academies on long term leases for peppercorn rent; as such they have been removed from the Council's Non-Current Assets. Continued over leaf.	• The judgements and estimates set out by the Council are appropriate under the accounting framework set out in the CIPFA Code of Practise on Local Authority Accounting in the UK • The extent of judgement involved and the key determining criteria are clearly set out in the financial statements. • Where estimable, the Council has disclosed the potential impact on the financial statement of different assumptions. • The estimates and judgements used in applying these accounting policies are consistent with those used by similar authorities. The basis for determining asset values in relation to the Council's share of pension fund assets, and the methods used to determine the pension liability are consistent with those used by all types of Council.	●

Assessment

- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies

Financial statements

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	• IAS 19 asset valuations – The assets of the Fund attributable to the Council are included at their fair value as follows: • Quoted securities- using current bid price. • Unquoted securities- based on professional estimate. • Unitised securities- current bid price. • Property- market value • Valuation of pension fund net liability – Liabilities have been assessed on an actuarial basis using the projected unit credit method which is dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and the Unfunded Teachers Liability have been assessed by Hymans Robertson, an independent firm of actuaries. The Council has relied on this independent review when concluding the assumptions are appropriate.		●
Other critical policies		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 be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

Financial Statements

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 previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or 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, which is appended.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to deposit takers and lenders. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
6	**Disclosures**	• Our review found no material omissions from the financial statements; we found three disclosure matters which were not material but were above our trivial level and management has amended these, see Appendix C. • In note 19, the Council has disclosed the fair value of loans from the Public Works Loans Board (PWLB) based on advice from treasury management advisors Arlingclose. In their calculations, Arlingclose have used a market rate approach which is aligned with the Council's treasury management strategy that is approved by the Cabinet each year. We compared their calculation of fair value for the six largest PWLB loans, to that based solely on the PWLB new loan rates. The Councils strategy is to borrow firstly from other Local Authorities and then PWLB and therefore using PWLB rate as a measure of borrowing may not be commensurate with Council's strategy, however using these rates, we found the fair value to be lower on average by 3.6%. If this reduction were to be extended across the whole of the PWLB portfolio, the reduction in fair value would be in the region of £11million. The Council then reviewed the whole portfolio and calculated the difference at £8 million. • This has no impact on the amounts at which the loans are carried in the financial statements and the disclosure is intended to help the reader form a judgement about the risks the Council manages. The Council assesses its assumptions closely with its treasury management advisors during the year to ensure compliance with its current strategy. Councils need to assess the assumptions that advisers use in making fair value calculations against their treasury management and investment policies to ensure the resulting values reflect the Council's circumstances.
7	**Significant difficulties**	• We are pleased to report that we encountered no significant difficulties in competing our audit work and enjoyed the full cooperation of the Council's staff.

Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	• We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No such inconsistencies have been identified.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties
3	**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 £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Subject to agreeing the final version of the financial statements and arranging the submission of final, we have substantially completed our work on the Whole of Government Accounts and have no issues which we wish to highlight for your attention. We anticipate completing the outstanding steps in good time to meet the deadline of 31 August 2018.
4	**Certification of the closure of the audit**	We do not expect to certify the completion of the 2017-18 audit of Cheshire West and Chester Council in the audit opinion, as detailed in Appendix E, because the Whole of Government Accounts work forms part of audit scope as set out in the NAO's Code of Audit Practice.

Value for Money

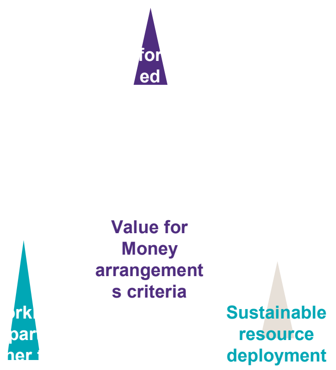
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017-18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03.

The Council is continuing its strategy of leading high profile re-generation schemes albeit against a background of continued uncertainty about the wider economic outlook, the potential for interest rate rises and increasing demands on the Council's resources.

We confirmed we would update our understanding of the Council's arrangements for managing risk on large schemes.

We communicated this risk to you in our Audit Plan dated February 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

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

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Whether the arrangements were adequate to manage foreseeable risks to the Council.
- Whether the Council was able to show that 'normal' activity continued to be managed effectively.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 18 and 19.

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 E.

Recommendations for improvement

We discussed findings arising from our work with management and have not made any recommendations for improvement.

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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	**Arrangements for managing risk on large schemes**	• The Council has a capital strategy document that sets out the aims and objectives for all capital projects and provides a framework to ensure future projects support the Council's service priorities. It sets out arrangements for managing and monitoring projects and assessing their value for money. • The strategy describes the 'capital journey' (the stages for creation, delivery, and processes for governance and oversight) • There are two key officer groups overseeing capital. The Capital Advisory Panel acts as the decision making panel for new projects, it monitors each project through its 'capital journey' and draws on specialist officer input where necessary. The Strategic Capital Board meets bi-monthly and ensures that the capital programme is appropriately commercially and investment focused. • The capital journey includes a number of trigger points at which projects can be referred back to previous stages for re-design or re-consideration and for member consultation. Depending the nature the issue the consultation can range from engaging the portfolio holder through to referral to the full Council where policy or budget decisions are required. • There are two project Board, The Northgate Development and Investment Board and the Baron's Quay Board that oversee progress on the projects and monitor the risk management steps on a monthly basis. Each project has its own detailed risk register that reports risk, mitigations and management actions; it is updated fortnightly for new risks and completed actions, taking into account the views of appropriate professionals. The Board provides regular updates to Cabinet.	**Auditor view** • Proper arrangements in place. • **Management response**

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Oher considerations	Findings	Conclusion

2	**Maintaining 'normal' activity**	• For 2017-18, the Council achieved an underspend of £400k (p/y £1.5m) against a budget of £276.2m (p/y £274.9m), while also delivering savings of £10.3m against a target of £12.1m. At 31 March 2018, the un-earmarked general fund stands £24.4m.
		• As expected there were positive and negative variances across all budget headings with overspends arising during the year met by non-recurrent savings such as managing vacancies and overheads. The majority of overspends/underspends are managed by re-profiling agreed budgets.
		• The Council identified Adult Social Care and Children's Services as particularly pressured areas.
		  • The Council has plans in place for re-structuring to support more effective commissioning of Social Care.
		  • Children's Services are experiencing an increase in the numbers of children it is responsible for, the complexity of their needs. This puts pressure on fostering places and leads to an increase in out of area placements. Home School transport has also overspent as the council supports children with increasingly complex needs.
		• When Council approved the 2017-18 budget, it also approved a four-year budget plan to 2020-21. A funding gap of £33.3m has been identified for the period 2019-2021 of which £11.8m relates to 2017-18. Whilst considered challenging, the Council considers the savings target realistic and achievable.
		• The two major regeneration developments at Barons Quay and Northgate are progressing broadly in line with its plans although the volatility in the retail lettings market has had an impact on the timing of these projects
		• The Council also continues to work closely with its partners in the NHS including West Cheshire CCG and Vale Royal CCG across a number of areas including the Better Care Fund (BCF).
			Auditor view
			• Proper arrangements in place.
			Management response

Independence and ethics

Fees, non audit services and independence

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. No non-audit services were identified

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	£27,488	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £27,488 in comparison to the total fee for the audit of £153,152 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Certification of Teachers Pension Return (Proposed) Certification of Housing capital receipts Return (Proposed)	£1,750 £2,000	Self-Interest (because these are a recurring fees)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,750 in comparison to the total fee for the audit of £153,152 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Governance Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

Action plan

Appendix A

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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.

	Assessment	Issue and risk	Recommendations
1	● (Medium)	• The Council's accounting policy for Investment Properties states that they valued at fair value at each reporting date. The valuation practise is to include them within the rolling programme on a similar basis to all other property assets with safeguards for assets incurring significant events. This practise does not align with the stated accounting policy and therefore does not comply with the CIPFA Code of Practice on local authority accounting in the UK.	• Review the practise for valuing Investment Properties to ensure it complies fully with the Code requirements. • Review the Investment Property portfolio and consider if the classification of assets within the portfolio remains appropriate. **Management response** • The Council is currently undertaking a review of its Investment Property Portfolio through an external company. The findings of this review will be presented to the Strategic Asset Board in September. • Management will review the current policy applying a rolling revaluation programme to Investment Properties once the external review has been completed with the aim of establishing recommendations to alignment with the CIPFA Code of Practice.
2	● (Medium)	• The Council adopts a difference practice for depreciating bought and leased assets. The practice for bought assets is not consistent with the requirements of the Code though it has not resulted in a material difference to the total amount of depreciation charged in the year.	• Review the practise for depreciating bought assets to ensure it complies fully with the Code requirements. **Management response** • The current policy of the Council allows for depreciation for Operational Land and Buildings to be reported in the final year of which the asset is of service and not the first. The ability to report accurately in the first year of which capital expenditure is incurred against amount of service usage obtained requires a change in business processes which will be reviewed during the year.

Controls

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

Follow up of prior year recommendations

Appendix B

We identified the following issues in the audit of Cheshire West and Council's 2016/17 financial statements, which resulted in 1 recommendation being reported in our 2016/17 Audit Findings report. We are pleased to report that management have has responded to our recommendation and continues to reflect it in the IT transition work.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	• We identified weaknesses in the IT control environment relating to systems access, segregation of duties and default accounts	• Management responded last year that the default accounts have been deactivated and as part of the transition to Best 4 Business,(B4B) where there is a risk or conflict for segregation of duties those responsibilities will be removed or managed on a risk basis. • Work on B4B continues and is currently scheduled to go live from December 2018.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

Appendix C

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

There were no misstatements in either the group or Council's the primary financial statements.

Misclassification 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.

Disclosure change	Detail	Auditor recommendations	Adjusted?
The EFA did not explain the difference between the Net Cost of Services in the Outturn Reported to Management £275.9m and the Net Cost of Services as charged to General Fund £192.4m	The same note provides a reconciliation between the General Fund charges and those in the Comprehensive Income and Expenditure Statement. The Code does not explicitly require an analysis of the earlier change but the difference in treatment is an anomaly.	Provide additional explanation **Management response** Agreed	✓
Note 39, Leases, the future minimum lease payments receivable under non-cancellable leases in future years was understated.	The future minimum lease payments receivable later than five years did not include the final year of lease payments of £1,772m	Amend the disclosure **Management response** Agreed	✓
An overview to the group accounts was included as preamble before the description of the group accounts.	The information in the overview explained the determination of the group boundary and the basis for inclusion of entities within the group accounts. Moving this to within the formal notes to the group accounts gives assurance to the readers that the information is within the scope of the audit.	Include the overview within the notes to the group accounts **Management response** Agreed	✓

Presentational changes

In addition to the above, we agreed with management that a number of changes would be made to the narrative sections of the accounts to improve the presentation and explanations for the reader. These changes included;

- Expanding the accounting policies note for Schools to include what happens on conversion to an Academy.
- Refreshing the language of the Accounting policy for pensions to better reflect that of the updated CIPFA Code.
- Aligning the Accounting policy for group accounts and the disclosures of Interests in Companies in both the Council and group accounts to help the reader understand the difference in accounting treatment between the group accounts and the Council's accounts.

Audit Adjustments

Appendix C

Impact of unadjusted misstatements

There are no unadjusted misstatements
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Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'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.	Cr £134	Dr £134	Cr 134	The amount is not considered material to the Authority's financial statements.
	Overall impact	**Cr £134**	**Dr £134**	**Cr £134**	

Fees

Appendix D

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

Audit Fees

	Proposed fee	Final fee
Council Audit	£153,152	£153,152
• Audit of subsidiary company Cheshire Provider Services Ltd	£14,000	TBC
• Audit of Joint venture Edsential CIC	£18,500	TBC
Grant Certification	£27,488	TBC
Total audit fees (excluding VAT)	**£213,140**	**TBC**

The proposed fees for the year in respect of the Council were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited; the final certification fee will be agreed following completion of the work. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Certification of Teachers Pension Return (Proposed)	£1,750
• Certification of Housing capital receipts Return (Proposed)	£2,000
	£3,750

Appendix E

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cheshire West and Chester Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Group Movement in Reserves 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 notes to the financial statements, including a summary of significant accounting policies. 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 2017-18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 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.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages **3 to 33**, other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Appendix E

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 16, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Financial Officer is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit and Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix E

Report on other legal and regulatory requirements - Certificate

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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

Royal Liver Building
Liverpool
L3 1PS

[Date]

Appendix F

Our Ref RJB/GWS
Your Ref

Grant Thornton UK LLP
Royal Liver Building
Liverpool
L3 1PS

25 July 2018

Dear Sirs

Cheshire West and Chester Council

Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of Cheshire West and Chester Council and its subsidiary undertakings, Brio Leisure, Cheshire Provider Services Trading Company, Vivo Care Choice Limited, its associate Avenue Service Limited, and its joint arrangement Edsential CIC for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law. We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

1) We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

2) We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.

3) The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.

4) We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

5) Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

6) Except as disclosed in the group and parent Council financial statements:

   A. there are no unrecorded liabilities, actual or contingent

   B. none of the assets of the group and parent Council has been assigned, pledged or mortgaged

   C. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

7) 7) We confirm that we are satisfied that:

   A. Investment Properties included in the balance sheet that have not been subject to a formal revaluation at the reporting date are carried at their fair values at the reporting date or at amounts that are not materialy different to their fair values at the reporting date.

   B. The depreciation charge for 'bought' assets within Property Plant and Equipment is not materially misstated.

8) We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

9) Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

10) All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

11) We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

12) We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the group and parent Council financial statements for these misstatements brought to our attention as they are immaterial to the results of the group and parent Council and its financial position at the year-end.

13) The group and parent Council financial statements are free of material misstatements, including omissions.

Appendix F

14) Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

15) We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.

16) We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

17) We have provided you with:

A. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;

B. additional information that you have requested from us for the purpose of your audit; and

C. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.

17) We have communicated to you all deficiencies in internal control of which management is aware.

18) All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.

19) We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.

20) We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:

A. management;

B. employees who have significant roles in internal control; or

C. others where the fraud could have a material effect on the group and parent Council financial statements.

21) We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.

22) We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

23) We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.

24) We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

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

Narrative Report

1) The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 25 July 2018.

Yours faithfully

Name……………………………Name……………………………

Position…………………………. Position………………………….

Date……………………………. Signed on behalf of the Council