The Audit Findings For Cheshire West and Chester Council

Year ended 31 March 2019

23 July 2019

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 findings and other matters 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 2019 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:

- give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure 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 Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), 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 May, June and July. Our findings are summarised on pages 7 to 19. We have identified one adjustment to the financial statements that has resulted in no adjustment to the Council's Comprehensive Income and Expenditure Statement.

During the audit a decision by the Supreme Court relating to pensions liabilities has led to an increase in the pension liability of £5.4m.

In July, the Government was refused leave to appeal against a ruling in what is known as the McCloud case relating to age discrimination in pension arrangements. This has led to a significant re-calculation of pension liabilities.

Audit adjustments are detailed in Appendix B.

Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

At the time of drafting this report our work is at an advanced stage and there are no matters of which we are aware that would require modification of our audit opinion (Appendix D) or material changes to the financial statements, subject to:

- completing work that is in progress at the time of drafting this report - set out below and in detail in the following sections
- receipt of management representation letter, see Appendix E, and
- review of the final set of financial statements

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

Work in progress at 12 July:

- Complete the review of the work of the Actuary
- Complete the review of the work of valuers and the assessment of the impact on non-revalued assets
- Complete testing of outstanding journals
- Complete the work on the Whole of Government Accounts Consolidation schedule
- Key Partner's final review of audit work.

Headlines

This table summarises the key findings and other matters 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 2019 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, 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 D. Our findings are summarised on pages 20 to 23.
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 but are unable to issue our completion certificate until we complete outstanding tasks on the Whole of Government Accounts submissions.

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

Overview of the scope of our audit

This Audit Findings Report 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) and the Code, 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 group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an analytical review was required for the components; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you on 10 January 2019, except for a reassessment of the appropriate level of materiality.

Conclusion

At the time of drafting this report we have taken our audit of your financial statements to an advanced stage. Subject to completing work in progress, and any outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 23 July 2019, as detailed in Appendix D. These outstanding items include:

- receipt of management representation letter;
- completing the tasks listed on page 3;
- review of the final set of financial statements and whole of Government Accounts Return.

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.

Our assessment of the value of materiality has been adjusted to reflect the final outturn gross expenditure. We detail in the table below our determination of materiality for Cheshire West and Chester Council.

We have set out on the next page a comparison of the final determination compared to that in our original plan with an explanation of the reasons for the change.

Materiality

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	£14.189m final (£14.535m planned)	£13.92m final (£14.34m planned)	The benchmark used is 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	£10.642m final (£10.9m planned)	£10.44m final (£10.755m planned)	Our performance materiality is set at 75% of our financial statements materiality; this enables to ensure our audit testing achieves sufficient coverage of large balances and related data populations.
Trivial matters	£0.7m final (£0.727m planned)	£0.696m final (£0.717m planned)	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 officer remuneration and termination benefits	Officer remuneration and termination benefits are sensitive items over which stakeholders will expect the Council to take particular care. Rather than set a numeric value for materiality in these areas, we consider any anomalies against the total value reported for that individual and whether it would change the banding within which it is reported.		

Our review of materiality

We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. We determined an amount based on our assessment of the audit risks and the potential for misstatement arising from those risks. Having made this assessment at the planning stage the amount at which we set materiality (£14.535m Group and £14.34m Council) was compared to sector parameters; the amounts equated to 1.9% of gross expenditure at the net cost of services line and was within, but towards the top of the generally accepted range which is 2%.

On receipt of the draft financial statements we reviewed materiality again. Gross expenditure has fallen compared to last year, when comparing the planned materiality to the revised gross expenditure figure we found it to be within the acceptable range but at 1.95% of gross expenditure for the group and 1.96% for the Council. We concluded that because there had been no change to the underlying risk it would not be appropriate to allow materiality to move closer to the top of the range and reduced it from the planning stage.

We have reconsidered materiality again in the light of adjustments made to the financial statements since the draft financial statements were issued and concluded that no further revision is required.

All misstatements - whether an error or omission - identified during the audit have been reported to management. All misstatements above the trivial matters threshold are reported to the Audit and Governance committee in this report.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition**	**Auditor commentary** There have been no changes to our assessment reported in the audit plan and 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. We do not consider this to be a significant risk for Cheshire West and Chester Council.
2	**Management override of controls**	**Auditor commentary** We have evaluated the design effectiveness of management controls over journals. We have utilised specialist support to extract the full population of journal transactions journals recorded during the year and after the draft accounts stage. We have analysed the listing and determined criteria for identifying high risk and unusual journals. We have tested those for authorisation and corroboration to supporting evidence. At the time of drafting this report the work on testing high risk journals was in progress. We have confirmed the completeness of journals processed and the control environment around the initiation, authorisation and processing of journals. We have identified a number of journals for substantive testing based on the presence of high risk indicators, for example adjustments that affect the outturn position, adjustments posted to infrequently used codes, adjustments for large amounts. We expect to complete this work by 20 July and will report our findings to the Audit and Governance Committee. We have gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence. We have evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. We found that accounting polices have been updated to reflect the requirements of newly adopted accounting standards and updates to the CIPFA Code. We found some accounting polices have been re-drafted to make them easier to understand. No other changes have been made. Subject to completing the work on journals, our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment**	**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. • 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. • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register and traced transactions through to the Comprehensive Income and Expenditure Statement or the revaluation reserve. We also considered the output of the valuation exercise to determine whether the valuation report adequately documented the work performed by the expert, including the conclusions reached. • For assets valued prior to the year end, we considered the implications of any subsequent changes in their fair value, and confirmed that such consideration is undertaken by the valuation team prior to the financial statements being completed. • For assets not formally revalued in the year, we considered evidence provided by the Council that the carrying value is not materially different to the fair value. At the time of drafting this report this work was in progress. We expect to complete it by 20 July and will report our findings to the Audit and Governance Committee. We found that one asset with a value of £36,000 that met the definition of an Investment Property had been correctly valued on a fair value basis but was classified as property, plant and equipment, and that another asset that met the definition of an Investment Property with a value of £1.7m had been valued on a depreciated replacement cost basis rather than a fair value basis. The first asset was re-classified with no effect on either the balance sheet total or reported deficit. The second asset was revalued with a net additional charge to income and expenditure of £120k. We extracted a further sample of assets revalued during the year and requested management to provide evidence that the classification and valuation basis were correct. No further errors were identified.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of pension fund net liability**	**Auditor commentary** See page 14 on Significant issues and page 16 key Judgements and Estimates

	Risks identified in our Audit Plan	Commentary
5	**Incomplete or inaccurate financial information transferred to the new general ledger**	**Auditor commentary** At our interim visit, we completed an information technology (IT) environment review and with support from our IT audit specialists, documented and evaluated the IT control environment. See next page for further commentary. As part of the Best4Business implementation programme, several cycles of User Acceptance Testing were undertaken. At the end of the most recent cycle in early 2019, HR and Payroll testing remained the key area of concern. Other workstreams at this stage had much lower volumes of defects. As a result the implementation date was therefore deferred and there was no transfer of data to the new ledger and this ceased to be a risk for the financial statements.

Significant findings - 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 and a summary of any significant control deficiencies identified during the year.

At the time of drafting this report the review of the Oracle suite of general controls was yet to be completed. It is expected to be completed during the week 15 July and the outcome will be reported to the Audit and Governance Committee. The findings here are provisional and based on the interim work.

	Issue	Commentary	Auditor view

1	**IT control environment**
	• 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.
		A number controls were found not to be operating as intended:
		• 29 users had been allocated a default responsibility, that had no functions or menus excluded.
		• Oracle E-Business Suite is released with a number of user accounts with system administrator privileges. For two of these accounts the default passwords had not been changed.
		• Two user accounts had not had a forced password change
		• Academy security administrators are not automatically or proactively notified of leaver activity on a per-occurrence basis.
		• Two high-risk Oracle database accounts had not had their default passwords changed
		• Oracle Financials changes are categorized into two separate change types. Projects (which involve >50 hours of work to complete) and Small Job Requests, each has an approval protocol. We identified a number of areas where best practise was not being followed.
			Auditor view
			• The findings of our IT audit team are broadly the same as last year. Our IT audit team have risk-rated their findings for sharing with officers and the risks of misstatement of the financial statements is regarded as inconsequential.
			• Last year we made no specific recommendations about the IT control environment because the planned move to the Best 4 Business systems involved a much more fundamental review of the IT control environment. During the year user testing of the system identified that further development was required and the planned migration and implementation has been put back until this development is completed. On the basis that our findings have identified no significant risks, the findings have been shared and the control environment continues to develop. We are making no new specific recommendations in respect of these weaknesses.

Significant findings - 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 and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
2	**Investments held at fair value through Other Comprehensive Income (FVOCI)** • The Council has long term investments in pooled investment vehicles with a value of £9.24m. It has designated these investments as at Fair value through Other Comprehensive Income.	IFRS 9 allows Councils to designate certain equity instruments as being at Fair Value through Other Comprehensive Income. The effect of this is to reduce the effect of instability that fair value movements have on the Surplus or deficit on provision of services. The election is one time and irrevocable. In making this election the Council has referred to guidance from its advisors.	**Auditor view** • The FVOCI designation for equity instruments can only be used under if the same instrument meets the definition of equity, as defined by IAS 32, but from the perspective of the entity that issues the instrument. In other words, it represents equity both the holder and the issuer. Our view is that these pooled investments do not meet the definition of equity for the issuer and so the designation is inappropriate. • CIPFA's view published in February 2018 is that it agrees with the view of the International Accounting Standards Board (subsequently confirmed by the IFRS Interpretations Committee) that a financial instrument that has all the features and meets the conditions in paragraphs 16A to16D (a puttable financial instrument) of IAS 32 is not eligible for the presentation election in IFRS 9. • Last year MHCLG consulted on mitigating the impact of fair value movements on pooled investment funds. As a result the Capital Financing and accounting regulations were changed so that such assets are classified as at fair value through profit and loss and a statutory override applies to reverse out the effects of movements in fair value on the surplus or deficit on the provision of services. • However the treatment of accumulated gains or losses on disposal and derecognition of the assets is significantly different under FVOCI approach compared to using the statutory override. • We view the Council's treatment to be a departure from the Code, although these assets and the related gains and losses are not material at the reporting date. **Management response** The designation has been disapplied and the financial statements amended.

Significant findings - 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 and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
3	**Critical Judgements**	The Council had included under the heading Critical Judgements a number of explanations of accounting practice that were particular to certain balances but which did not represent the exercise of judgement by the Council in an area of critical importance	**Auditor view** Critical judgements should relate only to subjective matters where the Council has exercised discretion in applying an accounting standard, and it is essential for the reader to understand the impact of the Council's decision to understand the financial statements. **Management response** The explanations are now included in the relevant notes to the financial statements
4	**Better Care Fund**	There was no explanation as to the assessment of control over the Better Care Fund schemes under IFRS 10 or IFRS 11	**Auditor view** Although established by statute, these arrangements can have many of the features of subsidiary entities and joint operations. An assessment of control is necessary to determine the appropriate accounting treatment. **Management response** An assessment of control under IFRS and the Code has been included within the Critical Judgements
5	**Group accounts- positioning**	The Group accounts were positioned at the very back of the financial statements.	**Auditor view** The Group accounts present the financial statements of the Council and those entities it controls and over which it exercises significant influence, as a single economic entity. As such they show the total assets and liabilities managed by the Council. The Code requires Group Accounts to be presented with equal prominence to the Financial Statements of the Council as a statutory entity. **Management response** The Group Accounts have been moved to the front of the financial statements.

Significant findings - 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 and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
6	**Group accounts- re-statements of comparative figures**	The Council has re-stated the group primary statements following receipt of audited accounts from the group entities; the re-statement is not material. Prior year figures should only be re-stated if there has been a material error that undermines the previously reported figures or there has been a change in accounting policy.	**Auditor view** Restatement is not appropriate for the group accounts. **Management response** The Council's subsidiaries publish their audited accounts at a later date than the Council. The restatement is included to provide transparency. The Group accounts have been amended to provide a full analysis of the re-stated figures.
8	**Group accounts – application of statutory override to group entity transactions.**	The Council had applied an adjustment within the group financial statements that had the effect of applying the statutory override in respect of IAS 19 Pension Costs, to the Subsidiary and Associate interests. The value of this adjustment was £3.077m. The statutory override is only available to local authorities if the Subsidiary and Associates IAS 19 costs are real costs and therefore should be reflected as such in the group financial statements.	**Auditor view** This adjustment is not relevant for group accounts because the usable reserves are determined by reference to the separate accounts of the Council. **Management response** The Group accounts have been amended.

Significant findings - 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 and a summary of any significant control deficiencies identified during the year.

	Issue	Commentary	
9	**Impact of the McCloud Judgement** The Court of Appeal has ruled that there was age discrimination in the Judges and Firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling but permission was declined. The case will now be sent back to the employment tribunal for remedy. The case is relevant to other schemes with transitional arrangements including the Local Government Pension Scheme	The Council requested an updated estimate from the actuaries of the impact of the McCloud Ruling. This has been received and has resulted in changes as follows: Net pension liability increase £5,461,000 Interest costs increase £73,000 Past Service Costs increase £5,389,000	**Auditor view** The recalculated IAS 19 liability should be included within the financial statements. **Management response** The Financial statements have been amended.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Provisions for NNDR appeals - £14.2m	The Council is responsible for repaying a proportion of successful rateable value appeals. Management based its provision on the historical record of successful appeals and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA), taking into account the age of the outstanding appeals and the property types those appeals relate to.	• The underlying information used was appropriate to determine the estimate • There have been no changes in the valuation method used • The increase in estimate is reasonable in the context of the information used. • The provision is adequately disclosed in the financial statements	●
Land and Buildings – Council Housing - £193.8m	At 31 March 2019 the Council owned 5,445 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council engaged the internal valuations team to complete the valuation of these properties. The year end valuation of Council Housing was £193.8m, a net increase of £5m from 2017/18 (£188.8m).	• See page 8 for our assessment of management's expert. • There have been no changes to valuation method • The value is adequately disclosed in the financial statements. • In progress- at the time of drafting this report we were undertaking an analytical review of the trend in changes in the Council House valuations. We expect to complete this work by 20 July and will report our findings to the Audit and Governance Committee	tbc

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability – £429m **At the time of drafting this report, as a consequence of the adjustment for the impact of the McCloud ruling, work in this area was still in-progress.**	The Council's net pension liability at 31 March 2019 is £429m (PY £303m) comprising the Cheshire Pension Fund Local Government scheme liability and unfunded defined benefit pension scheme obligations. The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £131m net actuarial loss during 2018/19.	• As with other audit firms working under the NAO Code we use PWC as auditor's expert to assess the competency of the actuary and reasonableness of the assumptions made by the actuary. An indication of how Hymans Robertson's assumptions compare to others is set out below. • At the time of drafting, we are still reviewing the key assumptions in the light of changes made following a refresh of the IAS 19 liabilities following the decision in the McCloud case. We are also aware that returns on investments were recalculated because the initial calculations were based on estimated figures for the period between January and March 2019 and actual data has become available. We expect to complete this work by 20 July and will report our findings to the Audit and Governance Committee.	

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.35% to 2.9%	tbc
Pension increase rate	2.5%	2.2% to 2.6%	tbc
Salary growth	2.8%	1% to 4.35% depending on scheme &time span	tbc
Life expectancy – Males currently aged 45 / 65	22.3 current 23.9 future	Range 22 to 25	tbc
Life expectancy – Females currently aged 45 / 65	24.5 current 26.5 future	Not specified	tbc

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings - Going concern

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

The Council reported a budget underspend of £0.5m, and the pre-audit financial statements showed a deficit of £62m during the year, which after adjustments between the funding and accounting basis resulted in an increase in general fund balance of £16m. The differences between the budget position and the financial deficit as reported in the Comprehensive Income and Expenditure Statement are mainly to due adjustments to asset and pension valuations under IFRS. The Council is forecasting a balanced budget position 2019/20. It has identified a funding gap of £21m in 2019/20 and has plans in place to deliver savings of £8.m and additional income sources of £13m. Policy proposals, savings plans and capital project plans are in place up to 31 March 2022.

Going concern commentary

Management's assessment process	Auditor commentary
• 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.

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 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 letter of representation has been requested from the Council, which is included at appendix E.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to the holders of 24 bank accounts. This permission was granted and the requests were sent. 22 of these requests were returned with positive confirmations. Other audit procedures, including supervising viewing of the on-line account information, have enabled us to obtain the assurance we required.
6	**Disclosures**	• In addition to the significant matters referred to above, we identified a number of other areas where disclosures were either incomplete or not fully compliant with the Code. Management has corrected these, see Appendix B. • Our review identified typographical and transposition errors and a number of inconsistencies between figures for related items in different notes or in narrative sections. Our review also identified some duplication and some tangled wording within the accounting policies. These too were reported to management and on investigation found to be explainable or trivial in nature. Where changes were being made as a result of other audit work, or where the inconsistency would affect future reporting, management has amended these too.
7	**Audit evidence and explanations/significant difficulties**	• All information and explanations requested from management was provided. • During the audit the authority officers identified a number of matters within the accounts that although they were not material to the financial statements, officers wished to amend. These matters and the amendments are detailed separately from the amendments made as a result of our audit work. See Appendix B

Other responsibilities under the Code

	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 Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. A small number of inconsistencies were identified, for example in the Narrative Report the group financial statements were described as one of the supplementary statements although they have equal status to the Council's own financial statements. These inconsistencies have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix D
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a number 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 We have nothing to report on these matters.
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 £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work is underway and we expect to complete it in good time for the certification deadline of 13 September.
4	**Certification of the closure of the audit**	As a consequence of the on-going work on the WGA Consolidation, we are unable to certify the closure of the 2018/19 audit of Cheshire West and Chester **Council** in the audit opinion, as detailed in Appendix D.

Value for Money

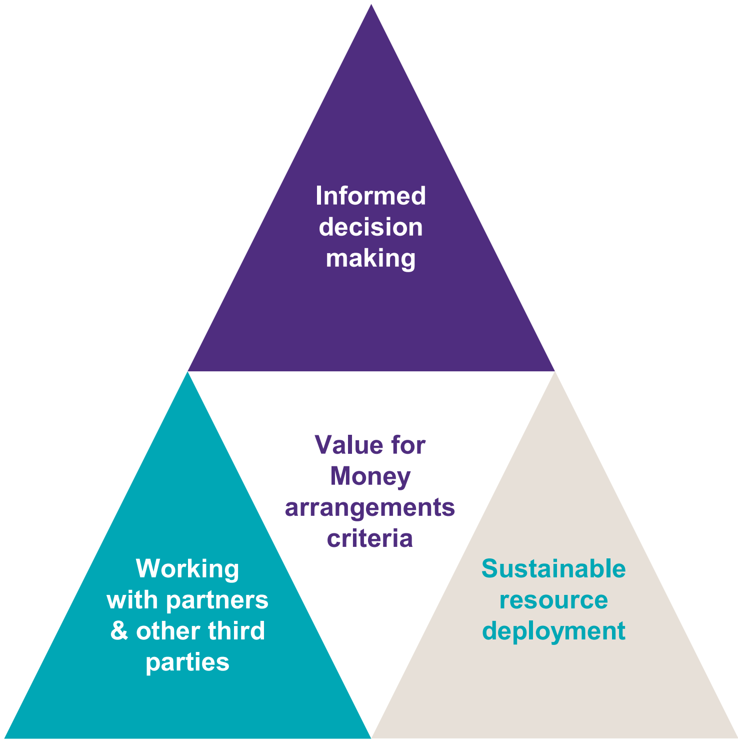
Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. 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."

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



Risk assessment

We carried out an initial risk assessment in January 2019 and identified two specific areas where we considered risks may arise in respect of proper arrangements using the guidance contained in AGN03. We communicated these to you in our Audit Plan dated January 2019.

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 those areas that we identified in the Council's arrangements that were worthy of further consideration. In arriving at our conclusion, our main considerations were:

- The Council continues to actively monitor progress against budgets and savings plans, including forward projections
- The Council’s plans and budgets are soundly based and comprehensive.
- The Council is fully aware of the operational and financial risks it faces and takes appropriate mitigating actions.
- 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 22 and 23.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed findings arising from our work with management; we have made no formal recommendations.

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.

	Area of Focus	Findings	Conclusion

1	**Monitoring and reporting arrangements for Council budgets and savings plans**
	• Proper control exercised and appropriate actions taken.
		• The Council has achieved an overall balanced budget with a small surplus of £513,000. General fund reserves stand at £130m or just under 18% of gross expenditure on services.
		• There have been pressures across all service directorates but particularly Adults and Children's Services. These pressures have been reported throughout the year together with the planned mitigation. These in year mitigations, planned use of earmarked reserves and identification of additional income have all contributed to meeting service pressures. This demonstrates active management of the Council's position.
		• Directorates have achieved £7.2m or 65%, of planned savings and the Council has been able to manage the shortfall through savings on Corporate and Council wide budgets.
		• 2019/20 is the last year of the current four year plan and in the budget the Council has projected forward to 2022 and identified a funding gap of £21.4m.
		• The funding gap is analysed as:
		    • Govt Funding reduction - £4.6m
		    • Budget pressures at service level - £7.9m of which £4.2m relate to older people's services
		    • Budget pressures Council wide - £8.8m of which £6.1m is inflationary, £6m debt repayment and £3.8m due to expected early retirements. £8.2m is mitigated by use of reserves already earmarked for this purpose.
		• £8.5m of savings plans have been developed for 2019/20 and a further £5.8m identified to 2022. Additional income from Council tax and business rates of £12.9m has been identified after taking into account prudent projections for increases in the tax base.
		• The Council has prepared a capital budget for 2019/20 of £98m and indicative budgets up to 2021/22 of a further £139.7m. The Highlights are:
		    • Transport and infrastructure £55.98m, of which £23.2m is planned for 2019
		    • Children's £24.9m of which £12.9m is planned for 2019
		    • Housing £54.7m of which £22.9m is planned for 2019
		    • Asset management £44.8m of which £12.3m is planned for 2019
			Auditor view
			• The Council has continued to be managed in a way that ensures sustainable resource deployment.
			• The Council has a sound financial position.
			• The Council uses appropriate financial planning methods and produces reliable plans.

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.

Area of Focus	Findings	Conclusion
2 **Oversight of major commercial schemes** • Adequate planning for the financial impacts of engaging in major schemes.	• Major schemes have continued to be monitored throughout the year with appropriate reporting to Cabinet and Council. • This reporting has included the risk management arrangements and appropriate horizon scanning for potential challenges and early mitigations. • The impact of the major schemes on the financial outturn, through both revenue and capital budget positions, has been considered and reported to members. • There is good evidence of the financial planning for major schemes in the establishment of earmarked reserves and projections of the rate of draw down against those reserves up to 2022. • The capital programme for 2019 was £80.5m of which £71.9m was delivered. However most of the capital spend was on service related schemes. The major commercial schemes, (Northgate, Baron's Quay and Winsford Cross) accounted for just £8.4m of all capital expenditure. • The 2019/20 budget included an indicative capital programme to 2022 with a total value of £237.7m of which £12.9m related to major commercial schemes.	**Auditor view** • The Council's major schemes have a high profile but are appropriately planned, monitored and reported. • While the Council's major schemes have potential to be multipliers of economic activity, their impact on Council resources is planned, measured and proportionate.

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 C

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. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of the following claims and returns: Housing Benefits Subsidy Housing capital receipts return Teachers' Pensions return	23,000	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 £23,000 in comparison to the total fee for the audit of £117,927 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.

Follow up of prior year recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	• 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.	**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 2018. • 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. **Audit Findings** • All investment properties have been revalued.
2	✓	• 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.	**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. **Audit Findings** • Depreciation is now applied to cumulative expenditure at the year end.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

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

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 issue	Detail	Auditor recommendations	Adjusted?
Group accounts restatement for 2017/18	The Council has re-stated the group primary statements following receipt of audited accounts from the group entities; the re-statement is not material. Prior year figures should only be re-stated if there has been a material error that undermines the previously reported figures or there has been a change in accounting policy.	If re-stating, a full prior year adjustment must be included. **Management response** • Management has acknowledged that re-statement is not required and has provided additional analysis setting out which figures have changed, by how much and why.	Yes
Group need full IAS 19 note included	The Council included a note within the group financial statements to show the effect on the pensions liability as a result of preparing group accounts. Notes are required in the group financial statement where there is a material difference between the group and single entity financial statements.	Such notes should be the full note containing all disclosures not merely the incremental elements. **Management response** • A full group pensions note has been included.	Yes
CIES	Other Expenditure within the Cost of Services Section has seen a significant change in the year end position; net income £14.8m compared to 2018 net expenditure £19.8m. .	Such a change is something that would be of interest to a reader of the accounts and either a separate note should be included or an explanation contained within another relevant note. **Management response** • An additional note has been added to explain the significant change in the reported position	Yes
CIES	The CIES did not have any references to the supporting notes.	Cross reference the CIES to supporting notes **Management response** • Cross references have been added	Yes
Expenditure and funding analysis (EFA)	The Council presents a five column Expenditure and Funding Analysis with a supporting note to explain the adjustments between the General Fund position and the amounts charged through the CIES. There is also a material difference between the amounts reported in the outturn and the amounts charged to General Fund. These adjustments were not supported by an explanatory note.	Include an explanatory note **Management response** • An additional note has been added explaining the movements between the outturn position and the amounts charged to general fund.	Yes

Audit Adjustments

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

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 issue	Detail	Auditor recommendations	Adjusted?
Note 25 and 8	In note 25 the narrative on the Capital Receipts Reserve states that £16.7m had been used to fund capital projects whereas note 8, Adjustments between the Accounting and Financing basis, indicated a figure of £15.7m	Resolve the inconsistency **Management response** • Additional narrative added to note 25 to explain how the figure was arrived at.	Yes
Note 2	The segment analysis for schools employee costs shows significant variance year on year.	Revisit and provide additional disclosure if necessary **Management response** • Figures have been reanalysed, nil net effect.	Yes
Note 36a	Audit testing identified that incorrect out of date figures were included in the note.	• Amend the figures **Management response** • Updated figures now included in the note.	Yes
Group	The Council had applied an adjustment within the group financial statements that had the effect of applying the statutory override in respect of IAS 19 Pension Costs, to the Subsidiary and Associate interests. The value of this adjustment was £3.077m. The statutory override is only available to local authorities; in the Subsidiary and Associates IAS 19 costs are a real cost and therefore should be reflected as such in the group financial statements.	Reverse the adjustment and account for the full impact of IAS 19 costs within group reserves. **Management response** • IAS 19 costs reinstated .	Yes

Audit Adjustments

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 unadjusted misstatements

The Audit and Governance Committee is required to approve management's proposed treatment of all non-trivial items identified during the audit as misstatements but for which management has declined to amend the financial statements. We are pleased to confirm there are no such misstatements.

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 ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000		Impact on total net expenditure £'000
1	Note 8, 12, 15,17,26, 39, MIRS, Bal, CIES, Verdin Exchange valuation on the wrong basis. Land back Bridge Street wrongly classified				
	Investment properties			Cr 1,711	
	PPE		Dr 34		
	Re-valuation reserve	nil	Dr 164		Nil
	Capital Adjustment account		Dr 1,513		
	Overall impact	**£nil**	**Dr£1,711**	**Cr£1,711**	**£nil**

Other Adjustments

These items were identified by management and have resulted in changes to the pre-audit financial statements. They are not audit adjustments but are reported here so that members of the Audit and Governance Committee can fully understand the changes that have occurred.

	Item adjusted	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1	CIES	Table does not agree with EFA – rounding errors	-	-	-
2	Group CIES	Due to issue Ref 1 as above	-	-	-
3	HRA	Disclosure only - invoiced debt of £25,000 not shown in analysis at note 9 to the HRA	-	-	-
4	Group Cash Flow	SDPS position had an imbalance against the CIES SDPS position of £14,000	-	-	-
5	Group Balance Sheet	Restated position was adjusted on usable reserves to correct rounding errors	-	-	-
6	Narrative	The number of Group Entities was changed from 17 to 16 and on page 9 activity figure in narrative amended from £280.3m to £281.7m to be consistent with the table.	-	-	-
7	Note 5 Assumptions	Pension Liability referred to note 44 and should be note 43	-	-	-
8	HRA	Impairment allowance wrongly reported in NCS	-	-	-
9	Note 20	Fair Value of liabilities was amended - £1,000 – roundings.	-	-	-
10	Note 25	Changed in line with the Balance Sheet v2.0 rounding corrected	-	-	-

Other Adjustments

These items were identified by management and have resulted in changes to the pre-audit financial statements. They are not audit adjustments but are reported here so that members of the Audit and Governance Committee can fully understand the changes that have occurred.

	Item adjusted	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
13	Group Accounts	To reflect changes made above re Verdin Exchange and Bridge Street	-	-	-
14	Note 5 Assumptions	The quantification of the impact of potential changes to estimates has been updated to reflect changes made re Verdin Exchange and Bridge Street.	-	-	-
15	Note 20	The analysis of Interest Receivable & Dividend Income was shown as being attributable to assets held at amortised costs. However, £616,000 had been taken to OCI.	-	-	-
16	Note 8, 11, 14,16,25, MIRS, Bal, CIES,	Correction of valuation gains to the revaluation reserve	-	-	-
17	Note 16 Heritage	Update tables to show correct category analysis – totals unchanged.	-	-	-
18	Note 20 Financial Instruments	Updated to reflect the split of the non-financial instrument line between LT & ST Debtors £57k	-	-	-
19	Cashflow / MIRS / CIES / 43&44 / 26 / BS / Narrative	Pensions Past Service costs have increased by £5.4m and the Pensions interest costs have increased by £73,000. Pensions liability has increased by an equivalent amount and likewise adjustment between the accounting and funding basis, leaving general fund unchanged. This is the result of the McCloud judgement.	Dr 5,462	Cr 5,462	Dr 5,462
20	Cashflow / MIRS / CIES / 10 / 24 / Group / BS / Narrative	Provision released when new information became available. Funds used to create a reserve. £1.3m	Cr 1,315	Dr 1,315	Cr 1,315
21	21&23	Update tables to show what Debtors/ Creditors have been included on Financial Instruments	-	-	-
		Overall impact	**Dr£4,147**	**Cr£4,417**	**Dr£4,147**

Fees

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

Audit Fees

Audit Fees	Proposed fee	Final fee
Council Audit	117,927	117,927*
Audit of subsidiary Cheshire Provider Services Ltd trading as Vivo Care Services	13,000	13,000 (TBC)
Audit of Subsidiary Cheshire West and Chester Leisure CIC trading as Brio Leisure	11,000	11,000 (TBC)
Total audit fees (excluding VAT)	**£141,927**	**£141,927 (TBC)**

* The McCloud issue and numerous changes to the draft financial statements have led to additional unplanned audit work, we will review final fee and discuss it with the Chief Operating Officer before finalising.

Non Audit Fees

Fees for other services	Fees £'000
Audit related services: Certification of claims and returns	23,000
	£23,000

Audit opinion

We anticipate we will provide the Group and Council 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 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Housing Revenue Account Income and Expenditure Statement, the Collection Fund Statement, the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet and the Group Cash Flow 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 2018/19.

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 2019 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 2018/19; 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.

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 Operating Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Operating 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 Operating Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and our auditor's report on the pension fund financial statements. 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.

Audit opinion

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 audit 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.

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, 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Chief Operating 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 Operating Officer. The Chief Operating 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Operating Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Audit opinion

In preparing the financial statements, the Chief Operating 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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 2019.

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 2019.

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.

Audit opinion

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

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 2019. 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 2019.

Use of our report

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.

Signature

Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Manchester

[Date]

Management Letter of Representation

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
MANCHESTER
M3 3EB

[Date]

Dear Sirs

Cheshire West and Chester Council
Financial Statements for the year ended 31 March 2019

This representation letter is provided in connection with the audit of the financial statements of Cheshire West and Chester Council and its subsidiary undertakings, Cheshire Provider Services Trading Limited and Cheshire West and Chester Leisure CIC, for the year ended 31 March 2019 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 2018/19 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

We have fulfilled our responsibilities for the preparation of the 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 2018/19 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

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 2019/19 ("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 financial statements:
   a. there are no unrecorded liabilities, actual or contingent
   b. none of the assets of the Council has been assigned, pledged or mortgaged
   c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
7. 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.

Management Letter of Representation

8. 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.

9. 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.

10. 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.

11. The financial statements are free of material misstatements, including omissions

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

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

13. 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.

14. 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.

15. We are satisfied as at the reporting date the HQ building in Chester is only held for income generation or capital appreciation. All use of the HQ building facilities by the Council is at an arms-length basis and on full market terms.

Information Provided

16. 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.

Management Letter of Representation

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

25. 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

26. 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 23 July 2019.

Yours faithfully

Name……………………………

Position…………………………

Date……………………………

Name……………………………

Position…………………………

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

Grant Thornton

grantthornton.co.uk