

# The Annual Audit Letter for Cheshire West and Chester Council

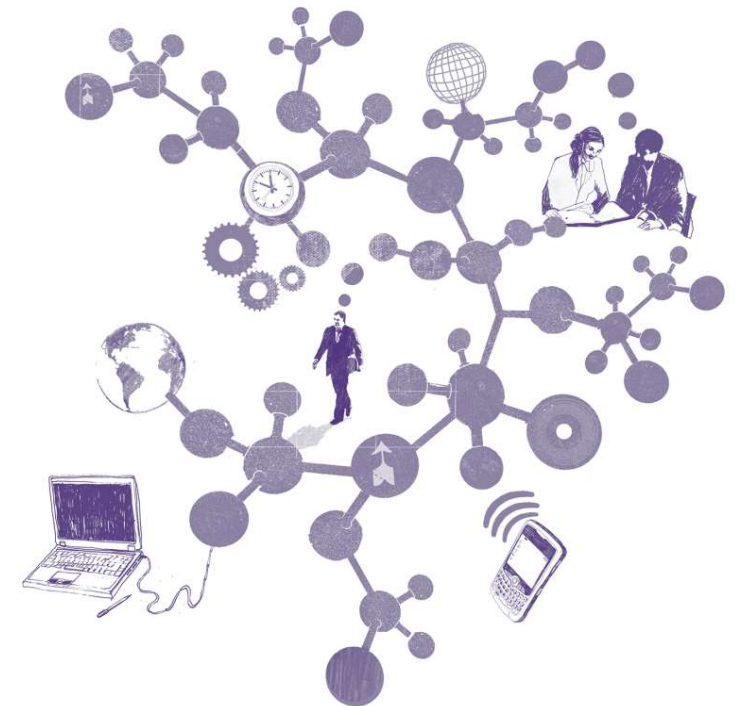
**Year ended 31 March 2017**

23 October 2017

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# Contents

<b>Section</b>	<b>Page</b>
1. Executive summary	3
2. Audit of the accounts	5
3. Value for Money conclusion	7

## **Appendices**

A Reports issued and fees

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Cheshire West and Chester Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee (as those charged with governance) in our Audit Findings Report on 6 September 2017.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 7 September 2017.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit report on 7 September 2017.

### **Whole of government accounts**

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report.

### **Certificate**

We certified that we had completed the audit of the accounts of Cheshire West and Chester Council in accordance with the requirements of the Code on 7 September 2017.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

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## **Cheshire Pension Fund**

### **Financial statements opinion**

We gave an unqualified opinion on the Pension Fund's financial statements.

### **Working with the Council**

The Accounts and Audit Regulations 2015 bring forward the approval and audit of the financial statements to 31 May and 31 July respectively from the 2017/18 financial year. We have continued to work closely with your finance team during the year to bring forward work in preparation for next year. The Council's finance team is well placed to meet the earlier closedown requirements in 2017/18.

The Council is continuing to progress two major regeneration projects at Barons Quay and Northgate as well as working with its partners in the NHS to further develop integrated health and care provision. These developments are taking place against a backdrop of on-going financial pressures. We will continue to work with officers to monitor progress and developments as part of our planned programme of work during 2017/18.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's members and officers.

**Grant Thornton UK LLP**  
**23 October 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £14,410k (£14,615k Group Accounts) which is 1.9% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for related parties and senior officer remuneration of £20k. We set a lower threshold of £653k (£662k Group Accounts), above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### **Pension Fund**

For the audit of the Cheshire Pension Fund accounts, we determined materiality to be £49,803k, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a lower level of specific materiality for certain areas such as related parties and senior officer remuneration. We set a threshold of £2,490k above which we reported errors to the Audit and Governance Committee.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 7 September 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the Council's accounts to the Audit and Governance Committee on 6 September 2017. We identified two adjustments from our audit work:

- the valuation basis of two assets affecting the group and Council's reported financial position amounting to £4,065k. This adjustment had no impact on the net cost of services; and
- the inclusion of internal recharges within gross Cost of Services expenditure and income amounting to £41,402k due to late guidance. This adjustment affected the group and Council's reported financial position but again had no impact on the net cost of services.

Following these adjustments, the audited financial statements showed net cost of services of £281,065k and total comprehensive income and expenditure of £55,814k, the same as the draft accounts presented for audit.

## **Pension fund accounts**

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Audit and Governance Committee on 6 September 2017. Our audit work did not identify any adjustments affecting the Fund's reported financial position.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

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

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.*

## Key findings

We carried out an initial risk assessment in February 2017 and did not identify any significant risks. We noted at the time that whilst the Council continues to face on-going financial pressures, it continues to have effective arrangements in place to manage its finances and deliver a balanced outturn position.

For 2016/17 the Council achieved an underspend of £1.5m against a budget of £274.9m, whilst also delivering savings of £14m during the year. The impact of the underspend meant that the Council added £1.5m to its General Fund increasing the General Fund balance to £25.0m at the year end.

Taking a longer term view, the Council when approving the 2016/17 budget, also approved a four year budget plan to 2019/20. For 2017/18, the Council agreed a Council Tax increase of 3.99% reflecting a 2% increase for social care and a 1.99% general increase. A funding gap of £43m has been identified for the period 2017-2020 of which £13.3m relates to 2017-18. Whilst considered challenging, the Council considers the savings target realistic and achievable.

The Council has achieved savings over the last few years by delivering radical changes to the way in which services are provided including the use of arms length companies. Looking ahead, the Council will need to continue to explore new and innovative ways of working to deliver services, whilst bridging the £43m funding gap over the next three years to 2019/20. This funding gap may well constrain the Council's ability to deliver new commitments.

The Council is continuing to progress two major regeneration developments at Barons Quay and Northgate. Some £24.5m has been spent on these developments during the year. In addition, the Storyhouse Cultural Centre was completed in March 2017 after a total investment of £37m of which £13.7m was spent during the year. The Centre opened in May 2017 to the public and delivers one element of the Council's regeneration strategy for Chester.

The Council also continues to work closely with its partners in the NHS including West Cheshire CCG and Vale Royal CCG in a number of areas including the Better Care Fund, a single pooled budget allowing local authorities and the NHS to work more closely together around people, placing their wellbeing as the focus of health and care services. The Council received £11m from the pooled budget during the year and this was used to fund a number of initiatives in collaboration with the two CCGs.

We updated our risk assessment during the final accounts audit and did not identify any further risks where we need to perform work.

## Overall VfM conclusion

We are satisfied that in all significant respects, the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and provision of non-audit services to Cheshire West and Chester Council.

## Fees – Cheshire West and Chester Council

	Proposed fee £	Final fee £
Council audit	153,152	153,152
Grant certification	27,488	27,488
<b>Total audit fees (excluding VAT)</b>	<b>180,640</b>	<b>180,640</b>

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

### Grant certification

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

### Fees for other services

Service	Fees £
<b>Audit related</b>	
Certification of Teachers Pension Return	TBC
Certification of Housing Capital Receipts Pooling Return	TBC
Audit of accounts for Cheshire Provider Services (Vivo Care Choices)	13,950
Cosocius - Audit of accounts	15,000
- Tax work	2,870
- Liquidation of company	16,932

We have set out below our final fees for the audit and provision of non-audit services to Cheshire Pension Fund.

## Fees – Cheshire Pension Fund

	Proposed fee per Audit Plan £	Actual fees £
Pension fund – Audit fee	29,342	29,342
<b>Total audit fees</b>	<b>29,342</b>	<b>29,342</b>
<b>Fees for other services – IAS19 Assurances</b>	<b>1,964</b>	<b>1,964</b>

The IAS 19 Assurances fees relate to our responsibilities in providing written assurance (on controls over information provided by the Pension Fund to the actuary) to PSAA appointed auditors of admitted bodies.

### 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 table above and alongside summarise all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.
- The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

### Reports issued

Report	Date issued
Audit Plan	March 2017
Audit Findings Report	August 2017
Annual Audit Letter	October 2017



# Reports issued and fees continued

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Threat identified	Safeguards
<b>Audit related services</b>				
	Audit of accounts for Cheshire Provider Services (Vivo Care Choices)	£13,950	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist.	None required
	Cosocius - Audit of accounts - Tax work - Liquidation	£15,000 £2,870 £16,932	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist.	None required
<b>Non-audit services</b>				
	Certification of Teachers Pension Return	TBC	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist.	None required
	Certification of Housing Capital Receipts Pooling Return	TBC	We have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist.	None required
	<b>TOTAL</b>	TBC		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.



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