



# The Annual Audit Letter for Cheshire West and Chester Council

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**Year ended 31 March 2019**

**28 August 2019**



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cheshire West and Chester Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that 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 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 23 July 2019.

## Our work

## Respective 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 and group'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 and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

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<b>Materiality</b>	We determined materiality for the audit of the group's financial statements to be £14,189,000 which is 1.9% of the group's gross revenue expenditure.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the group's financial statements on 30 July 2019.
<b>Whole of Government Accounts (WGA)</b>	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. This work is underway and we expect to complete it in good time for the certification deadline of 13 September.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

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# Executive Summary

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<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 July 2019.
<b>Certification of Grants</b>	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions, Teachers Pensions on behalf of the Teachers' Pension Agency and The Housing Capital Receipt Return on behalf of the Ministry of Housing, Communities & Local Government. Our work on these claims is not yet complete and will be finalised by 31 December 2019. We will report the results of this work to the Audit and Governance Committee separately.
<b>Certificate</b>	We are unable to certify that we have completed the audit of the financial statements of Cheshire West and Chester Council until we complete the work on the Whole of Government Accounts.

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## Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in July.
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial statements and annual reporting.

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

**Grant Thornton UK LLP**  
**August 2019**

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# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work and in evaluating 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 the audit of the group financial statements to be £14,189,000 which is 1.9% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £13,920,000 which is 1.9% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration and termination benefits where we considered any anomalies as a proportion of the total value reported for that individual.

We set a lower threshold of £717,000 above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the 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 remainder of the financial statements, the narrative report, and the annual governance statement published alongside the financial statements to check they are consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that 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 group's business and was risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Property Plant and Equipment - Valuation of land and buildings</b></p> <p>Council land and buildings are revalued on a five-yearly rolling basis to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value at the financial statements date. In the intervening years, such as 2018/19, the Council carries out a desktop revaluation to ensure that there is no material difference. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (around £1.5 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>Reviewed management's processes and assumptions.</li> <li>Assessed the competence, expertise and objectivity of management experts.</li> <li>Reviewed the instructions issued to valuation experts and the scope of their work.</li> <li>Discussed with the expert the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>Evaluated 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.</li> <li>Tested 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.(cont.)</li> </ul>	<p>See following page.</p>

# Audit of the Financial Statements

## Significant Audit Risks

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# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b></p> <p>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.</p> <p>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 (known as the McCloud Case.)</p> <p>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.</p> <p>The case is relevant to other schemes with transitional arrangements including the Local Government Pension Scheme. The Council requested an updated estimate from the actuary of the impact of the McCloud Ruling.</p>	<p>As part of our audit work we have used PWC as auditor's expert to assess the competency of the Actuary and reasonableness of the assumptions made by the actuary. This approach is consistent with that of other audit firms working under the NAO Code.</p> <p>We obtained confirmation from the pension fund auditor over the data provided to the Actuary.</p> <p>We reviewed the updated estimate from the actuaries of the impact of the McCloud Ruling, and agreed the subsequent amendments to the financial statements.</p>	<p>The assumptions used by the actuary were within the acceptable ranges identified by PWC.</p> <p>The valuations provided by the actuary were correctly reflected in the financial statements.</p>



# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals,</li> <li>• utilised specialist support to extract the full population of journal transactions recorded during the year and after the draft accounts stage,</li> <li>• analysed the listing and determined criteria for identifying high risk and unusual journals,</li> <li>• tested the identified high risk journals for authorisation and corroboration to supporting evidence,</li> <li>• gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence,</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>We confirmed the completeness of journals processed and the control environment around the initiation, authorisation and processing of journals.</p> <p>We corroborated all high risk and unusual journals to supporting documentation.</p> <p>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.</p> <p>Our audit work did not identify any incidence of management override of controls.</p>

# Audit of the Financial Statements

## Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Improper revenue recognition</b> Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>We considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund. We have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Cheshire West &amp; Chester Council as the administering authority, mean that all forms of fraud are seen as unacceptable</li> </ul>	<p>Therefore we do not consider this to be a significant risk for Cheshire Pension Fund</p>
<p><b>Valuation of level 3 investments</b> Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls</li> <li>• reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.</li> <li>• considered the competence, expertise and objectivity of any management experts used.</li> <li>• for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period.</li> </ul>	<p>Our audit work did not identify any significant issues in respect to this risk</p>

# Audit of the Financial Statements

## Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>As part of our audit work we completed;</p> <ul style="list-style-type: none"><li>– review of accounting estimates, judgements and decisions made by management</li><li>– testing of journal entries</li><li>– review of unusual significant transactions.</li></ul>	<p>Our audit work did not identify any evidence of management override of controls.</p>

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# Audit of the Financial Statements

## **Audit opinion**

We gave an unqualified opinion on the group's financial statements on 30 July 2019.

## **Preparation of the financial statements**

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. As set out on page 7, we found some errors in the property valuations that led to additional work being undertaken. However, the finance team responded promptly and efficiently to our queries during the course of the audit.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit and Governance Committee on 23 July 2019.

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

We are required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website in and alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## **Pension fund accounts**

We gave an unqualified opinion on the pension fund accounts of Cheshire Pension Fund on 26 July 2019. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Governance Committee on 23 July 2019.

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

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.

## **Certificate of closure of the audit**

We are unable to certify that we have completed the audit of the financial statements of Cheshire West and Chester Council until we complete the work on the Whole of Government Accounts.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 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

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in July 2019, we agreed recommendations to address our findings.

## Overall Value for Money 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 ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Monitoring and reporting arrangements for Council budgets and savings plans</b></p> <p>Proper control exercised and appropriate actions taken.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>• Confirmed in-year reporting of budgets, budget pressures and mitigating actions.</li> <li>• Identified planned use of reserves and balances.</li> <li>• Confirmed that the development of savings plans for future periods are based on reasonable assumptions and are linked to service plans.</li> <li>• Confirmed that capital budgets are based on service plans and reasonably anticipated capital resources.</li> </ul>	<p>The Council has continued to be managed in a way that ensures sustainable resource deployment.</p> <p>The Council has a sound financial position.</p> <p>The Council uses appropriate financial planning methods and produces reliable plans.</p>
<p><b>Oversight of major commercial schemes</b></p> <p>Adequate planning for the financial impacts of engaging in major schemes.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>• Confirmed that progress in terms of spend and completion is monitored throughout the year.</li> <li>• Confirmed that risk management arrangements are in place.</li> <li>• Confirmed that both revenue and capital impacts are reported to members.</li> <li>• Confirmed that earmarked reserves are established for major projects and that the use of such reserves is planned and monitored.</li> <li>• Confirmed that the commitment to such projects is not an unreasonable or disproportionate part of the overall capital programme.</li> </ul>	<p>The Council's major schemes have a high profile but are appropriately planned, monitored and reported.</p> <p>While the Council's major schemes have potential to be multipliers of economic activity, their impact on Council resources is planned, measured and proportionate.</p>

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

## Fees

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	117,927	*129,427(tbc)	153,152
Audit of Pension Fund	22,593	**24,593(tbc)	29,342
Subsidiary Cheshire Provider Services Ltd trading as Vivo Care Services	13,000	13,000(tbc)	16,950
Subsidiary Cheshire West and Chester Leisure CIC trading as Brio Leisure	11,000	11,000(tbc)	11,000
Housing Benefit Grant, Housing Capital Receipts and Teacher Pensions return-Certification	23,000	23,000	31,238
<b>Total fees</b>	<b>187,520</b>	<b>*210,020(tbc)</b>	<b>241,682</b>

## Audit fee variation

See \* As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £117,927 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

See \*\* As reported in the Audit Findings Report for Cheshire Pensions Pension Fund, additional work was necessary on the revised actuarial calculations used by the Pension Fund following the decision in the McCloud case, we propose raising additional fee £2,000 to cover the cost of this work.

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	3,000
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,000
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.  As set out on page 7 and highlighted on page 12, additional work was also undertaken as a result of errors identified from audit testing of property valuations and to gain assurance over the reported values of those assets not formally revalued during the year	3,000  2,500
<b>Total</b>		<b>11,500</b>

**Fee variations are subject to PSAA approval**

# A. Reports issued and fees

We confirm below fees charged for non-audit services.

## Fees for non-audit services

Service	Fees £
<b>Audit related services</b> - IAS19 procedures for other bodies admitted to the pension fund.	3,000 Plus 750 per admitted body*
<b>Non-Audit related services</b> - None	nil

## Fee variations

See \* As reported in the Audit Findings Report for Cheshire Pensions Pension Fund, additional work has been undertaken to provide assurance to auditors of admitted bodies. In our Audit Findings Report we anticipated a fee with a fixed element of £3,000 and a variable element of £500 per admitted body. We have reviewed this and now propose a variable element £750. This is subject to confirmation by PSAA Ltd.

## Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

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



Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies



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