

# The Annual Audit Letter for Cheshire West and Chester Council

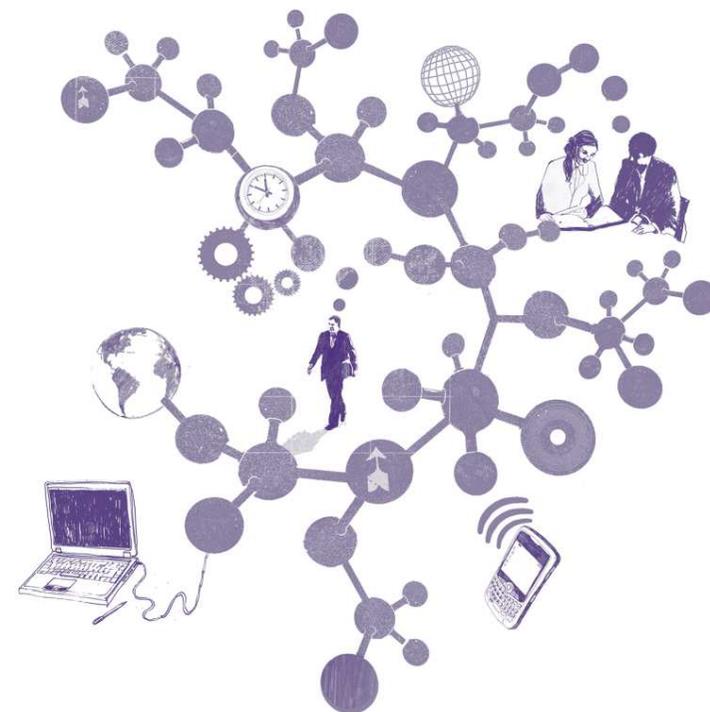
**Year ended 31 March 2016**

24 October 2016

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# Executive summary

## **Purpose of this letter**

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) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (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 13 September 2016.

## **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 14 September 2016.

### **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 2016. We reflected this in our audit opinion on 14 September 2016.

### **Whole of government accounts**

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 14 October 2016.

### **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 14 October 2016.

### **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 2016. 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 on 14 September 2016.

### **Working with the Council**

The Accounts and Audit Regulations 2015 bring forward the approval and audit of 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 and meet the earlier closedown requirements as a 'dry run' year for 2015/16.

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**  
**24 October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, 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 our audit of the Council's accounts to be £13.195m (£13.34m for the Group Accounts) being 1.9% of 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 set a lower threshold of £0.659m, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### **Pension Fund**

For the audit of Cheshire Pension Fund accounts, we determined materiality to be £41.147m, 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 threshold of £2.057m 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 that 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 on which we give 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 14 September 2016, in advance of the 30 September 2016 national deadline.

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

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

We reported the key issues from our audit of the accounts of the Council to the Audit and Governance Committee on 13 September 2016. We identified no adjustments affecting the Group or the Council's reported financial position. The draft financial statements recorded net expenditure of £240.1m and the Council delivered an outturn underspend of £0.9m against its planned activity for the year.

## **Pension fund accounts**

We also reported the key issues from our audit of the accounts of Cheshire Pension Fund to the Audit and Governance Committee on 13 September 2016.

We identified one small adjustment affecting the Fund's reported financial position. The draft financial statements recorded net assets available for benefits of £4,170.1m, this figure was revised following receipt of actual year end valuations to £4,161.1m, a reduction of £8.955m.

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

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

Both documents were prepared in line with 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 2015 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 2016 and did not identify any significant risks. However we noted 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 2015/16, the Council achieved an underspend of £0.9m against a budget of £273.3m, while also delivering savings of £15.5m during the year. The impact of the underspend meant that the Council added £1.7m to its General Fund rather than the budgeted contribution of £0.8m initially planned, increasing the General Fund to £23.5m at the year end.

Taking a longer term view, the Council when approving the 2016/17 budget, also approved a medium term financial strategy to 2019/20. Over the 4 year period to 2019/20 there is a funding shortfall of £57.2m. For 2016/17, the Council agreed a Council Tax increase of 3.99% reflecting a 2% increase for social care and a 1.99% general increase. Saving required for 2016/17 total £15.7m.

The Council has delivered savings over the last few years by delivering radical changes to the way in which services are delivered including the use of arms length companies. In 2015-16, two new companies were set up, CoWest Services Ltd which delivers business support functions across the Council whilst Edsential CIC provides traded services to schools.

Looking ahead, the Council will need to continue to explore new and innovative ways of working to deliver services, whilst bridging the £57.2m funding gap over the next four years. This funding gap may well constrain the Council's ability to deliver new commitments.

The Council is continuing to progress two major regeneration developments at Barons Quay and Northgate both of which are progressing in line with its plans. The Council continues to take professional advice on both projects and regularly reports to members.

The Council also continues to work closely with its partners in the NHS including West Cheshire CCG and Vale Royal CCG in a number of areas including the Better Care Fund (BCF). The BCF is a local single pooled budget to enable the better delivery of health and social care for local people. During 2015/16, the Council received £10.6m from the pooled budget 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 significant 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 ending 31 March 2016.

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# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

**An efficient audit** – we delivered the accounts audit some two weeks before the deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

**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 and Governance Committee updates covering best practice. Areas we covered included for example, Innovation in public financial management, Knowing the Ropes – Audit Committee Effectiveness Review, Making devolution work, and Reforging local government. We also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

**Thought leadership** – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

**Bringing forward work** - 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. We have continued to work closely with your finance team during the year to bring forward work and meet the earlier closedown requirements as a 'dry run' year for 2015/16.

**Providing training** – we provided your teams with training on financial accounts and annual reporting.

**Providing information** – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

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# Working with the Council

## **Working with you in 2016/17**

We will continue to work closely with you during 2016/17 with a particular focus on important accounting developments, with timely feedback on any emerging issues.

### **Highways Network Asset**

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles and requires compliance with the requirements of the Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges and street furniture. These assets should always have been recognised within Infrastructure Assets.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016. Councils may need to develop new accounting records to support the change in classification and valuation of the HNA. The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

We have met with the Council to consider the accounting, financial reporting and audit assurance implications arising from these changes. We have shared Client Briefings with Officers. This significant accounting development is likely to be a significant risk for our 2016/17 and we will continue to meet with Officers and issue further briefings during the coming year to update the Council on key developments and emerging issues.

The audit risks associated with new developments and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

We will also continue to work with you and support you over the next financial year through our focus on:

An efficient audit – continuing to deliver an efficient audit

Improved financial processes – we will focus our work on the actions and measures you put in place to achieve the required savings.

Understanding your operational health – we will continue to focus our value for money conclusion work on the on going financial challenges that the Council faces and monitoring the plans that the Council has in place to deliver the required savings.

Audit Updates – we will continue to provide regular Audit and Governance Committee updates covering best practice and emerging issues in the sector.

# Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and the 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	19,802	19,802
<b>Total audit fees (excluding VAT)</b>	<b>172,954</b>	<b>172,954</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 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 services:</b>	
• Certification of Teachers Pension Return	4,000
• Certification of Housing Capital Receipts Pooling Return	1,750

In addition, we have set out below our fees where we have undertaken work at companies where the Council has a shareholding.

Other	Fees £
<b>Audit services:</b>	
• Audit of accounts for Cheshire Provider Services (Vivo Care Choices)	14,750
• Audit of accounts for CoSocius	15,800

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 scale fee	29,342	29,342
<b>Total audit fees (excluding VAT)</b>	<b>29,342</b>	<b>29,342</b>
<b>Fees for other services</b>		
– IAS19 Assurances	1,964	1,964

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	August 2016
Annual Audit Letter	October 2016



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