

The Audit Findings for Cannock Chase District Council

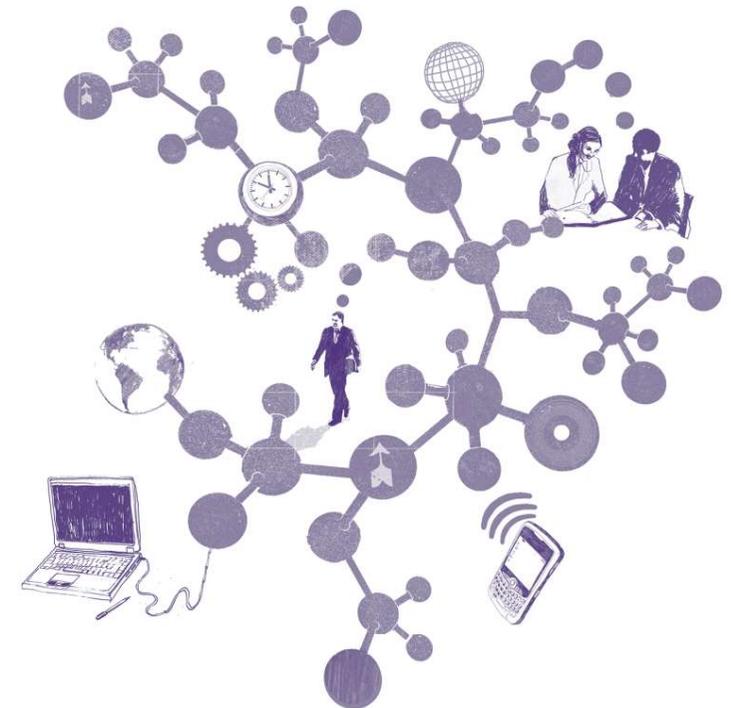
Year ended 31 March 2016

September 2016

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Dear Members of the Audit and Governance Committee

Audit Findings for Cannock Chase District Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Cannock Chase District Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

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

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 primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

James Cook
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Cannock Chase District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements;
- obtaining and reviewing the management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified one audit adjustment affecting the Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded net expenditure of £4,871k; the audited financial statements show net expenditure of £5,024k. In addition, the revaluation reserve, below the deficit on the provision of services line, has increased by £2,475k. This change is driven by the increase in the fair value of the leisure centre at Cannock Chase (which is held at depreciated replacement cost value). We have also recommended a number of adjustments to improve the disclosures and presentation of the financial statements.

The key message arising from our audit of the Council's financial statements are:

- Assets classified as 'other land and buildings' have increased in value by £2,322k which is comprised of an increase in value of the leisure centre of £2,475k offset by an increase in depreciation of £153k.
- The initial working papers to support the valuation of council dwellings did not contain sufficient information from the internal valuer. As a result there was uncertainty over the whether the value in the unaudited balance sheet was up to date. We recommend that the Council reviews its policy for revaluing its council dwellings so that all of the housing stock is revalued annually rather than on the current five year rolling programme.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- 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 information of which we are aware from our audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

Value for Money

Our initial risk assessment identified one significant risk in relation to the Council's financial resilience. In particular, the Council's arrangement for sustainable resource deployment to ensure that the finances are planned effectively to support the sustainable delivery of strategic priorities as well as ensuring that informed decisions are being made acting in the best interest of the public.

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016. However, after the year end, there has been a significant deterioration in the financial resilience of the Council, arising from the closure of Rugeley Power Station. This announcement means the Council will lose £1m recurrently of business rate income, representing 8.3% of the Council's net spending.

When the Council set the initial budget in February 2016 it identified the resources to fund its spending plans in 2016/17 and 2017/18. These resources included spending some of the Council's reserves in 2017/18. However, the deficit for 2018/19 forecast to be £1,222k exceeded the level of available general fund reserves by £604k.

The latest projections shown in the updated July 2016 budget states, that the Council's un-earmarked general fund reserves will be exhausted during 2018/19, unless the additional savings of £1,600k identified in the September 2016 Financial Recovery Plan are achieved. The Council needs to deliver these savings as a matter of urgency.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

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

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to Audit Committee which is due in February 2017.

During our work performed to date on the housing benefit grant claim we identified that the Council did not apply the required system update prior to the April 2016 submission of the grant claim form. We have performed additional procedures to ensure that this omission does not have a significant impact on the financial statements.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Head of Finance.

We have made three recommendations, which are set out in the action plan at Appendix A. Any recommendations have been discussed and agreed with the Head of Finance and the finance team.

Acknowledgement

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.

Section 2: Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £1,359k (being 2% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality threshold.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £67k.

As we reported in our audit plan, we identified the following items to be sensitive by nature and we have undertaken more detailed audit procedures.

Balance/transaction/disclosure	Explanation
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of senior manager salaries and allowances in the remuneration report	Due to public interest in these disclosures and the statutory requirement for them to be made.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 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>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at Cannock Chase District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Cannock Chase District Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have performed the following:</p> <ul style="list-style-type: none"> • review of the journal control environment and framework; • testing of journal entries; • review of accounting estimates, judgements and decisions made by management; • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<ul style="list-style-type: none"> • Documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated. • Walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements. • Review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation. • Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made. • Review of the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • Documentation of the processes and controls in place around the accounting for employee remuneration; • Walkthrough tests to confirm the operation of controls; • Review of monthly reconciliations between payroll system and general ledger; • Agreement of staff costs per the financial statements to the General Ledger and the payroll system; • Monthly trend analysis to gain assurance that there have been no significant omissions from staff costs recorded. 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • We have completed our documentation of the system and performed a walkthrough of the identified controls; • Testing of payments made after the year end to ensure that liabilities have been recorded in the correct period; • Testing of a sample of goods received that have not yet been invoiced, to identify any items which have not been accrued correctly; • We will hold discussions with appropriate personnel to obtain a detailed understanding of the accruals process; • Review monthly reconciliations between purchase ledger system and general ledger. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Welfare expenditure</p>	<p>Welfare benefit expenditure improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Documentation of the processes and controls in place around accounting for welfare expenditure; • Walkthrough tests to confirm the operation of the controls; • Review of reconciliation between benefits system and general ledger; • Review of procedures and testing in accordance with the methodology required to certify the housing benefit claim. 	<p>Based on our walkthrough of the housing benefit systems and the strength of the controls that are in place we no longer consider this to be a significant risk.</p> <p>Our audit work has not identified any significant issues in relation to the risk initially identified.</p> <p>We did however note the following:</p> <ul style="list-style-type: none"> • Initial testing identified a number of benefit claims which had not been processed correctly by the Council. As a result we will be completing additional testing as part of our Housing Benefit audit, but we are satisfied that these errors do not have a material impact on the financial statements. • The Council did not apply the required system update prior to the April 2016 submission of the grant claim form. The impact to the financial statements is considered trivial.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p>	<p>Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser.</p> <p>Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion.</p> <p>Retained business rates and Council tax income will be treated as accrued income.</p>	<p>We are satisfied that revenue accounting policies are appropriate and comply with relevant accounting frameworks.</p> <p>Our review of the revenue recognition policies has not highlighted any issues which we wish to bring to your attention.</p>	<p style="text-align: center;">● Green</p>
<p>Judgements and estimates</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> – Revaluations – Useful life of PPE – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions 	<p>The CIPFA Code of Practice allows for non-current assets to be revalued on a rolling programme. However, all of these assets need to be disclosed at the fair value at the Balance Sheet date. Officers have concluded that assets revalued in previous years have not changed materially in value, apart from the Cannock Chase Leisure Centre which has been amended in the financial statements.</p> <p>In addition, the initial working papers to support the valuation of Council Dwellings did not contain sufficient information from the internal valuer. As a result there was uncertainty over the whether the value in the unaudited balance sheet was up to date.</p> <p>We recommend that the Council reviews its policy for revaluing its council dwellings to ensure that the carrying value of HRA properties is not materially different from its fair value. The Council should consider revaluing all of its housing stock annually rather than on the current five year rolling programme.</p> <p>Our review of other key estimates and judgements has not highlighted any other issues which we wish to bring to your attention.</p>	<p style="text-align: center;">● Green</p>

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements (continued)

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Head of Finance, (s151 officer) has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

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 not been made aware of any 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	From the work we carried out, we have not identified any 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. We have requested the inclusion of an additional paragraph to confirm that the Council have undertaken further valuations on its assets base (in addition to its usual five year rolling programme) in order to gain adequate assurance that the total carrying value is not materially different to its fair value.
5.	Confirmation requests from third parties	We obtained direct confirmations from PWLB for loans and requested from management permission to send confirmation requests of bank and investment balances. This permission was granted and all confirmations sought were obtained.
6.	Disclosures	Our review found no material omissions in the financial statements.

Other communication requirements (continued)

	Issue	Commentary
7.	Matters on which we report by exception	<p>We have not identified any issues where we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> • 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 information of which we are aware from our audit; • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading.
8.	Specified procedures for Whole of Government Accounts	<p>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. Note that work is not required as the Council does not exceed the £350m threshold.</p>

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses, Journals, Housing Benefits and the Valuation of the Pension Fund Liability as set out on pages 10 to 13.

The controls were found to be operating effectively and we have no matters to report to the Audit and Governance Committee.

Adjusted misstatements

One material adjustment to the draft accounts has been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
<p>1 The Council undertook an additional revaluations of 82% of its depreciated replacement cost (DRC) properties to ensure that the carrying value of property, plant and equipment was not materially different from its fair value. Per the external valuation, the value of Cannock Chase Leisure Centre increased significantly to £9,490k. This has resulted in an increase in value of £2,475k which has been partially offset by an increase in depreciation of £153k. This results in a net increase to both the balance sheet and the comprehensive income and expenditure position of £2,322k.</p> <p>Its has been determined that the increase in value of other DRC assets are not material to the financial statement and have not been adjusted by management. We are satisfied that the carrying value of property, plant and equipment is now not materially misstated from its fair value in the financial statements.</p>	<p>Dr depreciation £153 Cr Revaluation reserve £2,475</p>	<p>Dr PPE £2,322</p>	<p>£2,322</p>
Overall impact	£2,322	£2,322	£2,322

Misclassifications 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. A number of minor disclosure and presentational amendments, including grammatical and typing errors, have been made to the narrative report, accounting policies and notes to the accounts.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	-	Note 6 – Events after the balance sheet date	The Council have included the closure of Rugeley power station as a post balance sheet event within the notes to the financial statements to provide clarity to the reader.
2 Disclosure	£692k	Note 39 - Leases	Where the council acts as a lessor the future minimum lease payments receivable under non-cancellable leases in future years was disclosed within the note amount to £44,024k. The amount was overstated by £692k as it included amounts received during 15/16 in error.
3 Disclosure	£296k	Note 13 – Heritage assets	The heritage asset note was amended to include the value of the assets.

Section 3: Value for Money

01. Executive summary

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Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place 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. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN 03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February / March 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN 03.

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.

Significant qualitative aspects

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

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

- the arrangements the Council has in place to ensure it is planning its finances effectively to support the delivery of strategic priorities;
- the Council's arrangements for working effectively with third parties to support the delivery of strategic priorities;
- the arrangements the Council has in place to make informed decisions in relation to the outsourcing of leisure services to ensure the Council is acting in the public interest.

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 page 24.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Key findings

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

Significant risk	Work to address	Findings and conclusions
<p>Financial resilience A great deal of uncertainty exists in relation to the future income and funding streams for the Council post 16/17. It is expected that contributions from working balances will be required in order to meet a balanced budget in future years.</p> <p>The closure of Rugeley power station will have a material impact on business rates income for the Council, resulting in a net reduction of £1 million per annum representing 8.3% of the Councils spending.</p> <p>The significant risk links to the Councils arrangements for sustainable resource deployment, to ensure that finances are planned effectively to support the sustainable delivery of strategic priorities to maintain statutory functions. As well as the arrangements that are in place to make informed decisions, ensuring that as an organisation decisions are being made in the public's best interest.</p>	<p>We have reviewed the Councils arrangements in place for identifying, agreeing and monitoring its sustainability and operational plans.</p> <p>We have reviewed the MTFP, budget updates and monthly financial reports for Cannock Chase District Council to assess the reasonableness of the assumptions with regards to the reduction of Rugeley power station business rates and the impact the closure will have on the Council.</p> <p>We have considered the governance arrangements in place to ensure that Council are making informed decisions.</p>	<p>Since our initial risk assessment the financial future for the Council has become increasingly uncertain. The closure of Rugeley power station, coupled with the decline in requested transitional funding mean that the Council have entered financial recovery mode and are currently in the process of drafting a Financial Recovery Plan which will become effective from 1st April 2017.</p> <p>The latest financial forecast position (as at July 2016) assumes that the Council will have exhausted its working balances by 2017/18 due to an expected deficit of £1.3 million rising to a deficit of £2.1 million in 2018/19. The Council need to deliver a minimum of £1.6 million of savings with effect from 1st April 2017 and £600k worth of savings have already been identified. The Council are also considering the possibility of converting earmarked reserves to working balances if necessary.</p> <p>Members were briefed in detail about the Council's financial position on the 18th July 2016 and it appears that the management team have been very transparent with members regarding the financial deterioration of the Authority since the power station closure.</p> <p>Although we believe that in all significant respects the Council has adequate arrangements for delivering economy, efficiency and effectiveness in the use of its resources for 2015/16 the future financial resilience of the authority is becoming increasingly fragile and the Council needs to start delivering savings as a matter of urgency.</p>

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.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	52,109	52,109
Grant certification	11,593	11,593
Total audit fees (excluding VAT)	63,702	63,702

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'.

No non-audit or audited related services have been undertaken for the Council.

Fees for other services

Service	Fees £
None	Nil

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance.	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications.	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought.		✓
Confirmation of independence and objectivity.	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence.		
Material weaknesses in internal control identified during the audit.		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements.		✓
Non compliance with laws and regulations.		✓
Expected modifications to auditor's report.		✓
Uncorrected misstatements.		✓
Significant matters arising in connection with related parties.		✓
Significant matters in relation to going concern.		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	We recommend that the Council reviews its policy for revaluing its council dwellings to ensure that the carrying value of HRA properties is not materially different from its fair value. The Council should consider revaluing all of its housing stock annually rather than on the current five year rolling programme.	High	Agreed	April 2017 Chief Accountant / Principal Property Services Officer
2	From 1 January 2019 IFRS 16 will supersede IAS 17 and all leases will need to be reported on the balance sheet. Given the complexity of the lease for the Market Hall in Rugeley the Council should consider the impact to the financial statements of assessing the lease as a finance lease rather than an operating lease.	Medium	Will review in line with new leasing standard	April 2019 Chief Accountant
3	As part of our audit procedures we noted that declarations of interest for senior management personnel are now completed on an exception basis. Although we appreciate this is an onerous task for the Council it would be best practice to obtain such declarations for all senior management on an annual basis.	Low	Agreed	April 2017 Democratic Services Manager

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANNOCK CHASE DISTRICT COUNCIL

We have audited the financial statements of Cannock Chase District Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of the Responsibilities for the Statement of Accounts, the Head of Finance 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies, we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority as at 31 March 2016 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether 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 these criteria as those necessary for us

Appendix B: Audit opinion (continued)

to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

James Cook
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Colmore Plaza
20 Colmore Circus
Birmingham
B4 6AT

27th September 2016



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