



# The Audit Findings For Cannock Chase District Council

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**Year ended 31 March 2019**

**29 July 2019**



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- A. Follow up of prior year recommendations
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cannock Chase District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 14. We have identified one adjustment to the financial statements of £2.021 million relating to the Council's net pension liability. This is detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion at Appendix D or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>- Final review of audit work by the Engagement Lead and consideration of the overall sufficiency of audit evidence</li> <li>- update of our subsequent events review to the date of sign off</li> <li>- receipt of management representation letter; and</li> <li>- review of the final set of financial statements.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified</p>
<p><b>Value for Money arrangements</b></p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Cannock Chase District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 15 to 17.</p>
<p><b>Statutory duties</b></p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

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

# Summary

## Scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

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

- An evaluation of the Council's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have not had to alter or change our audit plan, as communicated to you in March 2019.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 29 July 2019, as detailed in Appendix D.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Cannock Chase District Council.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,250,000	<ul style="list-style-type: none"> <li>• Business environment – the Council operates in a stable, publicly funded environment</li> <li>• Control environment – no significant deficiencies identified.</li> </ul>
Performance materiality	937,500	<ul style="list-style-type: none"> <li>• No history of significant deficiencies or high number of deficiencies</li> <li>• No history of a large number of misstatements.</li> </ul>
Trivial matters	62,500	<ul style="list-style-type: none"> <li>• Matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</li> </ul>
Specific materiality: - Senior officer remuneration	100,000	<ul style="list-style-type: none"> <li>• Public interest</li> </ul>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>1 <b>The revenue cycle includes fraudulent transactions (rebutted)</b></p>	<p>We have considered our assessment of the presumed significant risk under ISA (UK) 240 that revenue may be misstated due to fraud and subsequent rebuttal as communicated in the audit plan and consider this to remain appropriate. The primary reasons for this rebuttal are:</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 Cannock Chase District Council, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>We therefore consider there is a low risk of material misstatement due to fraud in revenue.</p>
<p>2 <b>Management over-ride of controls</b></p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p><b>Conclusion</b></p> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

## Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Commentary
<p><b>3</b> Valuation of land and buildings</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li> <li>• evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>• written to the valuer, with follow up discussions as necessary, to confirm the basis on which the valuations were carried out</li> <li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>• tested, on a sample basis, revaluations made during the year to ensure they have are consistent with the valuer's report and have been input correctly into the Authority's asset register</li> <li>• evaluated the assumption made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end</li> </ul> <p>Our audit work has not identified any issues regarding the valuation of property, plant and equipment included within the financial statements. At the time of drafting this report this was subject to clearance of Engagement Lead review.</p> <p>As part of our audit work we also considered how management obtained assurance that assets not revalued in 2018/19 were not materially misstated. The potential estimation uncertainty for assets not revalued was identified by management as up to £383,000. We reviewed the basis for this estimation and concluded that it was reasonable. Management's view is that this understatement is not material to the Council's accounts. As the potential estimation uncertainty is below our materiality threshold we have accepted this judgement.</p>

## Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Commentary
<p><b>4</b> Valuation of the pension fund net liability</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the processes and controls put in place by management to ensure that the Authority’s pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>• evaluated the instructions issued by management to their management expert (Hymans Robertson) for this estimate and the scope of the actuary’s work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority’s pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report; and</li> <li>• obtained assurances from the auditor of Staffordshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul> <p>At the time of drafting this report our audit work was still in progress. Our audit to date has identified one issue in relation to accounting for the impact of the McCloud Court of Appeal judgement. This is considered under section “Significant findings – other issues” at page 8.</p>

## Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p><b>1 Impact of the McCloud judgement</b></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.</p> <p>Our Grant Thornton view was that this gave rise to a past service cost and liability within the scope of IAS 19 as the ruling created a new obligation.</p> <p>The Government applied to the Supreme Court for leave to appeal this ruling, but this was rejected in late June 2019. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling has implications for pension schemes where transitional arrangements have been implemented, including the Local Government Pension Scheme (LGPS).</p> <p>This was confirmed on 15 July 2019 in a statement released by The Chief Secretary to the Treasury. The quote below confirms that remedies will need to be applied to the LGPS and hence supports the Authority's stance in the recognition of increased liabilities:</p> <p><i>“As ‘transitional protection’ was offered to members of all the main public service pension schemes, the government believes that the difference in treatment will need to be remedied across all those schemes. This includes schemes for the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers. Continuing to resist the full implications of the judgment in Court would only add to the uncertainty experienced by members.”</i></p>	<p>The Council had included a contingent liability in its draft statement in relation to the McCloud ruling. As a result of the Supreme Court judgement the Council requested a revised IAS 19 report from its actuary to estimate the potential impact of the McCloud ruling, this also considered actual investment returns for the period. The actuary's estimate was that this would result in an overall increase of £2.0m to the net defined liability at 31 March 2019.</p> <p>Management have amended the financial statements to reflect the actuarial review of the impact</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Our audit procedures have confirmed the relevant adjustments have been made to the financial statements in regard to the LGPS.</p>

## Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
<b>Provisions for NNDR appeals</b>	<p>The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required and refer to data provided by Analyse Local to inform their estimate.</p> <p>The calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision has increased by £964k in 2018/19.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the appropriateness of the underlying information used to determine the estimate</li> <li>Considered the reasonableness of increase/decrease in estimate. This has increased notably in the period as a result of appeals from NHS bodies and ATM providers</li> <li>Confirmed the adequacy of disclosure of estimate in the financial statements</li> </ul>	 Green
<b>Land and Buildings – Council Housing</b>	<p>The Council is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged the internal valuer to complete the valuation of these properties. The year end valuation of Council Housing was £179.5m.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>Assessed the objectiveness and competency of management's expert</li> <li>Determined the accuracy of the underlying information used to determine the estimate</li> <li>Verified the appropriateness of beacons applied to a sample of properties through agreement of their archetype</li> <li>Tested the value of the properties by comparing a sample to publicly available market information to enable us to assess the reasonableness of the increase in the estimate</li> <li>Confirmed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>Audit work is still ongoing but at the time of writing this report no issues have been identified.</p>	 Audit work not concluded

### Assessment

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

## Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other	<p>Other land and buildings comprises specialised assets, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged Lambert Smith Hampton to complete the valuation of properties as at 31 March 2019 on a cyclical basis. 81% of other land and buildings were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £13.5m.</p> <p>Management have considered the year end value of non-valued properties to determine whether there has been a material change in the total value of these properties.</p> <p>Management's assessment of assets not revalued has identified no material change to the properties value – see page 6 for further information</p>	<p>We have</p> <ul style="list-style-type: none"> <li>Undertaken an assessment of management's expert,</li> <li>Reviewed the completeness and accuracy of the underlying information used to determine the estimate</li> <li>Reviewed the impact of any changes to valuation method</li> <li>Agreed the reasonableness of increase in estimate</li> <li>Reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>At the time of drafting we are considering the changes in valuation for both Other Land and Buildings and Council Dwellings compared to our expectations of market changes.</p>	<p style="text-align: center;">●</p> <p>Audit work not concluded</p>

### Assessment

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# Significant findings – key judgements and estimates

Net pension liability	Summary of management's policy	Audit Comments	Assessment																								
	<p>The Council's net pension liability at 31 March 2019 is £79.438m.</p> <p>The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.</p> <p>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.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements</p>	<p>We have</p> <ul style="list-style-type: none"> <li>Undertaken an assessment of management's expert</li> <li>Reviewed and assessed the actuary's roll forward approach taken,</li> <li>Used an auditors expert (PWC) to assess the actuary and assumptions made by the actuary</li> </ul> <table border="1" data-bbox="824 448 1944 911"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.4% - 2.5%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.5%</td> <td>2.4% - 2.5%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>2.9%</td> <td>Scheme and employer specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.1/ 22.1</td> <td>23.7 – 24.4/ 21.5 – 22.8</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.4 – 24.4</td> <td>26.2 – 26.9/ 24.1 – 25.1</td> <td>●</td> </tr> </tbody> </table> <p>We have reviewed:</p> <ul style="list-style-type: none"> <li>Completeness and accuracy of the underlying information used to determine the estimate</li> <li>Impact of any changes to valuation method</li> <li>Reasonableness of the Council's share of LPS pension assets.</li> <li>Reasonableness of increase/decrease in estimate</li> <li>Adequacy of disclosure of estimate in the financial statements</li> </ul> <p>In October 2018, the High Court ruled that defined benefit pension schemes must remove any discriminatory effect that guaranteed minimum pension entitlements (GMPs) have had on members benefits. GMPs must be equalised between men and women and that past underpayments must be corrected. Actuaries have taken differing approaches to this issue. Hymans Robertson have not made any allowance for (GMPs). We have estimated an impact of 0.1% of gross pension liabilities. We do not consider this to be material.</p> <p>At the time of drafting the completion of our audit work is subject to obtaining and considering information for benefits paid in the period and agreement of source data provided to the actuary.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.4% - 2.5%	●	Pension increase rate	2.5%	2.4% - 2.5%	●	Salary growth	2.9%	Scheme and employer specific	●	Life expectancy – Males currently aged 45 / 65	24.1/ 22.1	23.7 – 24.4/ 21.5 – 22.8	●	Life expectancy – Females currently aged 45 / 65	26.4 – 24.4	26.2 – 26.9/ 24.1 – 25.1	●	<p style="text-align: center;">●</p> <p>Audit work not concluded</p>
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#### Assessment

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

# Significant findings - Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

## Going concern commentary

### Management's assessment process

Management have assessed the Council as a going concern on the basis that:

- There are no events, of which they are aware, that could cause sufficient material uncertainty to cast significant doubt on the Fund's ability to continue as a going concern. This extends but is not limited to at least twelve months from the reporting date.
- The Authority are required by statute to produce an annual balanced budget, this is supplemented by the MTFP which currently covers the period to 31 March 2022
- The Authority, has a strong balance sheet as at 31 March 2019

### Auditor commentary

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Management's assessment has considered the applicable guidance relating to public sector bodies which presumes in local government is that the going concern assumption does apply unless there is specific evidence to the contrary. Management assessment has concluded that no material uncertainty in respect of going concern exists.

In addition based on our own review of the Council, we are aware that the Council has set an "approved budget" for 2019/20 and has a longer term financial plan.

As such we consider that the assessment undertaken by the Authority on going concern is a reasonable and valid one and there are no indications of material uncertainty.

### Work performed

- Detailed audit work performed on management's assessment

### Auditor commentary

- Our audit did not identify any events or conditions which may cast significant doubt on going concern assumption.
- The reported position of the council at 31 March 2019 per the draft financial statements shows that they have total current assets of £34m compared to £11.5m current liabilities, £20.1m and £7.5m of total current assets are cash and short term investments respectively and are therefore highly liquid.
- The borrowings of the council, while significant are entirely with PWLB and therefore low risk.
- The council will remain a going concern throughout the life of the MTFP however this will entail transfer of amounts from working balances to support the budget. Overall, reserves are anticipated to stay above the minimum required.

### Concluding comments

### Auditor commentary

- We are satisfied that the preparation of the financial statements using the going concern principal is reasonable
- Based on the above comments, we anticipate being able to issue an unmodified opinion.

## 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 <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Governance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council, which is included in the Audit and Governance Committee papers</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation request(s) to various banking providers, other financial institutions with whom an investment deposit is held and various lenders. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided.</li> </ul>

## Other responsibilities under the Code

Issue	Commentary
① <b>Other information</b>	<ul style="list-style-type: none"> <li>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</li> </ul> <p>No inconsistencies have been identified</p>
② <b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters</p>
③ <b>Specified procedures for Whole of Government Accounts</b>	<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. As the Council does not exceed the threshold no detailed procedures are required.</p>
④ <b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2018/19 audit of Cannock Chase District Council in the audit opinion, as detailed in Appendix D.</p>

# Value for Money

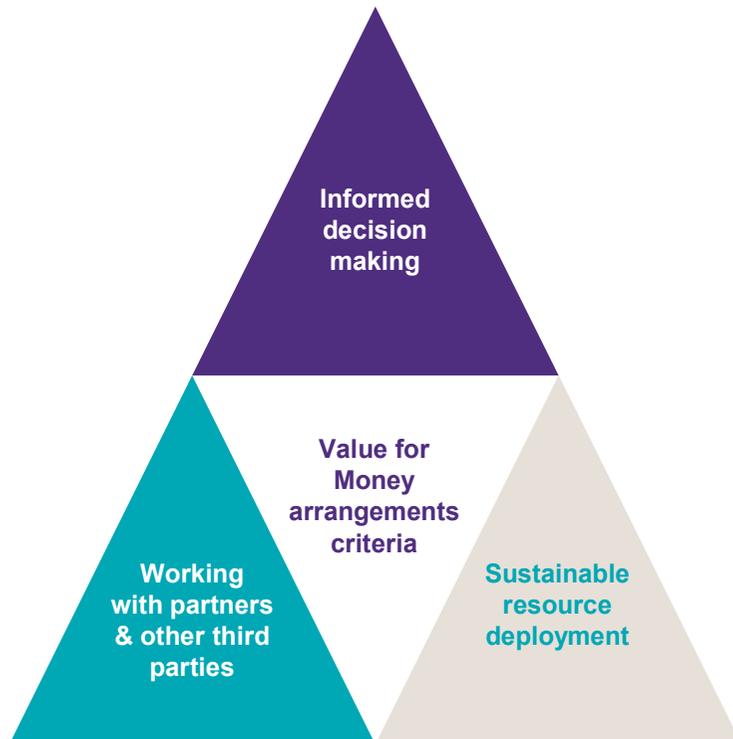
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

*"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."*

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



## Risk assessment

We carried out an initial risk assessment in February 2019 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

# Value for Money

## **Our work**

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

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

- Outturn in the period to planned budget
- Ability to set a balanced budget for the 2019/20 financial period; and
- Plans for future and how these are incorporated in the MTFP

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 17.

## **Overall conclusion**

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

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

**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.

1	Significant risk	Findings	Conclusion
	<b>Delivery of financial plans and sustainability</b> <p>The Council have a good track record of delivering in year budgets and targets, however this remains a significant risk in 2018/19 against the backdrop of a challenging Local Government landscape.</p> <p>In particular, the uncertainty in regard to the future of Government funding and retention of business rates, as well as reliance on the successful delivery of Mill Green have led us to identify this as a significant risk area for the authority.</p>	<p>In 2018/19:</p> <ul style="list-style-type: none"> <li>the overall revenue account position shows a favourable variance in net expenditure of £406,000 compared to budget agreed by Council for 2018/19.</li> <li>after taking in to account changes in financing, the upshot of this is that the Council have had to transfer £48,000 less from working balances.</li> <li>the portfolio outturn reflects a favourable variance of £128,000.</li> <li>Income from business rates dropped in the year. This is pertinent in the light of the expected changes in the proportion of retained business rates in future. Linked to this was an increase in costs associated with business rates appeals (this corresponds to an increase in the provision per the balance sheet at 31 March 2019).</li> <li>The performance of the Council is reported to Cabinet on a monthly basis and quarterly to the leadership team, any issues are also discussed with the Leader and Deputy Leader of the Council. It is the intention going forward that reporting will also go before Scrutiny.</li> </ul> <p>The 2019/ 20 budget process:</p> <ul style="list-style-type: none"> <li>The Council has set a balance budget of £11.492m for 2019/20. This includes transfer to working balance of £102,000.</li> <li>The assumptions in the 2019/20 budget appear reasonable and in line with our expectation</li> </ul> <p>MTFP:</p> <ul style="list-style-type: none"> <li>The Council are able to set a balanced budget throughout the lifetime of the MTFP</li> <li>We note that this currently assumes the transfer from working balances of £603,000 in 2020/21. However, the overall level of working balances is forecast to remain above the minimum required by a comfortable margin.</li> <li>The level of uncertainty in the funding regime beyond 2020 is significant, particularly in relation to business rates retention. As noted in the MTFP this may have a material impact on council finances (£1.642m) depending on the intention for future retention of business rate growth.</li> </ul>	<p><b>Auditor view</b></p> <p>We are satisfied that the Council has adequate arrangements in place to deliver on financial plans as demonstrated by the month 12 outturn, the appropriate level of oversight is provided to ensure monitoring and reporting is fit for purpose.</p> <p>In addition to this, the Council have robust arrangement in place to formulate a prudent and measured MTFP which is reflective of the current environment and information currently available.</p> <p>While we believe that management has sufficient measures in place to forecast reasonably (a supporting paper is provided as an appendix to the budget on robustness of assumptions), the future models of funding in Local Government are uncertain and these are prevalent in the financial plans prepared by management. The authority faces significant challenge in the medium term and therefore we will continue to monitor this risk closely going forward.</p>

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

### Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing capital receipts grant	2,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,000 in comparison to the total fee for the audit of £40,124 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefits subsidy claim	13,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £13,500 in comparison to the total fee for the audit of £40,124 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

# Follow up of prior year recommendations

We identified the following issues in the audit of Cannock Chase District Council's 2017/18 financial statements, which resulted in two recommendations being reported in our 2017/18 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<p><b>Publication of the draft Annual Governance Statement</b>                      Management need to ensure that the draft annual governance statement is published on their website alongside the draft financial statements by 31<sup>st</sup> May 2019.</p>	<p>The Council published their Annual Governance Statement in line with the stipulated deadline in 2018/19</p>
2 ✓	<p><b>Assets with a net book value of zero</b>                      Management need to ensure that as part of the fixed asset procedures they consider/ review any assets with a net book value of zero for applicability and use.</p>	<p>A review of assets was undertaken at year end and assets with nil NBV were written out where they were no longer providing service or the useful economic life revised. There are no assets with a net book value of zero at 31 March 2019</p>
3 X	<p><b>IT Administrator access</b>                      Management need to control the use of generic system administrator accounts in the Open Revenues platform as this undermines the principle of accountability</p>	<p>No change has been made to address this issue.</p> <p><b>Management response</b></p> <p>As stated last year the council understands the concern raised, however due to the number of users who could run controls within Open Revenues and the need for these controls to be accessed easily by a number of users – the report user is an acceptable way of achieving this. The report user is not used for reports or system jobs which in anyway update Open Revenues and access to it is limited to two users within the Systems and Control team.</p>

**Assessment**  
 ✓ Action completed  
 X Not yet addressed

# Audit Adjustments

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

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
① Adjustment to the Local Government pension scheme in respect of the McCloud judgement and return on investment assets	2,021	(2,021)	Nil
<b>Overall impact</b>	<b>£2,021</b>	<b>(£2,021)</b>	<b>£Nil</b>

It should be noted that the above adjustment had an impact on a number of notes and disclosures in the accounts however for ease of reference we have outlined the net impact on the pension fund liability

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Auditor recommendations	Adjusted?
<b>Narrative Report</b>	We proposed that the narrative was enhanced to bridge the gap between portfolio spend and net revenue spend per the general fund	✓
<b>Accounting Policies</b>	Following the transition to IFRS 9 (Financial Instruments) and IFRS 15 (Revenue) we proposed in line with Code requirements that the accounting policies reflect accounting treatment under the old and new standard as the comparative information presented was stated under the old standard. Management have determined that this adjustment will not be made on the basis that it could be misleading for the reader of the accounts and would not add significant value to the disclosure	X
<b>Capital Commitments</b>	The Council identified the disclosure of capital commitments in relation to the construction or enhancement of property, plant and equipment and improvements to the housing stock did not agree to supporting working papers provided for audit. We proposed that this disclosure was therefore update to reflect commitments.	✓

# Fees

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

## Audit Fees

	£
<b>Council Audit – fee proposed per fee letter</b>	40,124
<b>Proposed fee variation</b>	
Pensions and PPE valuation - The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 and PPE valuations needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 and PPE valuations this year.	3,000
Assessing the impact of the McCloud ruling - The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December and the Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have carried out additional work considering the impact on the financial statements along with any audit reporting requirements.	1,500
<b>Final fee – 2018/19 audit</b>	£44,624
<b>Final fee – 2017/18 audit</b>	£52,109

The fee proposed per fee letter reconciles to the financial statements

The proposed fee variation has been discussed with Deputy Managing Director, but not agreed. It is also subject to agreement with PSAA Limited.

## Non Audit Fees

Fees for other services	Fees £'000
<b>Audit related services:</b>	
• Certification of Housing Capital Receipts grant	2,000
• Certification of Housing Benefits subsidy claim	13,500
	<b>£15,500</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 Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Cannock Chase District Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Statement of Movement on the Housing Revenue Account Balance, the Collection Fund Income and Expenditure Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the EFA, Notes to the Core Statements, Policies and Judgements, Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Deputy Managing Director's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Deputy Managing Director has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### Other information

The Deputy Managing Director is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement and the Annual Report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

# Audit opinion (continued)

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.
- We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Deputy Managing Director and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 23, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Deputy Managing Director. The Deputy Managing Director is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Deputy Managing Director determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Deputy Managing Director is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Cannock Chase District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

# Audit opinion (continued)

**Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Birmingham

30 July 2019



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