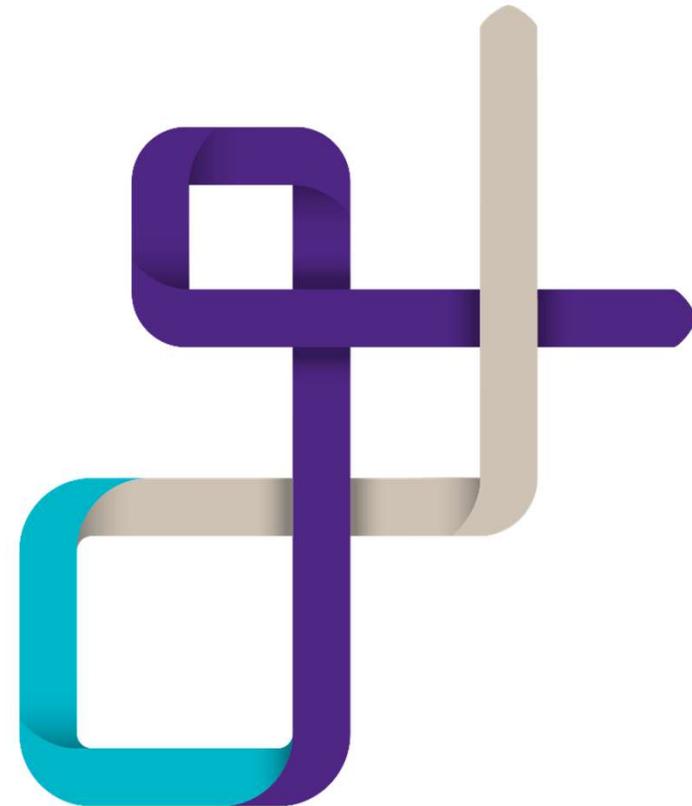




Audit Findings

Year ending 31 March 2018

Cannock Chase District Council
26 July 2018



Contents



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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 issues 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 2018 for those charged with governance.

<p>Financial Statements</p>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council's financial statements give a true and fair view of the Council's financial position and of the group and Council's expenditure and income for the year, and 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. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and 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 July. Our findings are summarised on pages 5 to 12. We have not identified any amendments to the financial statements that have resulted in an adjustment to the Statement of Comprehensive Income and Expenditure. Audit adjustments and disclosure changes are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 26 July 2018, as detailed in Appendix F. These outstanding items include:</p> <ul style="list-style-type: none"> - receipt of management representation letter; and - review of the final set of financial statements. <p>We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.</p>
<p>Value for Money arrangements</p>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"> the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion') 	<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 F. Our findings are summarised on pages 13 to 15.</p>
<p>Statutory duties</p>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and certify the closure of the audit 	<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. The working papers issued to the audit team were of excellent quality and the finance team were very supportive throughout when answering questions. This contributed to the audit team being able to complete the audit in line with the 31st July 2018 national deadline.

Summary

Overview of the scope of our audit

This Audit Findings 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), 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 in particular included:

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

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 26 July 2018, as detailed in Appendix F. These outstanding items include:

- receipt of management representation letter; and
- review of the final set of financial statements.



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. Our materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for Cannock Chase District Council.

	Council Amount	Qualitative factors considered
Materiality for the financial statements	£1,277,000	<ul style="list-style-type: none"> • Business environment – the Council operates in a stable, publicly funded environment • Control environment – no significant deficiencies identified.
Performance materiality	£958,000	<ul style="list-style-type: none"> • No history of significant deficiencies or high number of deficiencies • No history of a large number of misstatements.
Trivial matters	£63,850	<ul style="list-style-type: none"> • Matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. 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>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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 • the culture and ethical frameworks of local authorities, including Cannock Chase District Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Cannock Chase District Council.</p>
<p>2 Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> – reviewed accounting estimates, judgements and decisions made by management – undertaken testing of journal entries – reviewed unusual/ significant transactions – reviewed significant related party transactions <p>Auditor Findings</p> <p>Our audit work has not identified any issues regarding the management override of controls. In particular the testing of journal controls and testing of journal entries has not identified any issues.</p>

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>3 Valuation of property, plant and equipment The Council revalues its land and buildings on a five year basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate • reviewed the competence, expertise and objectivity of any management experts used • reviewed the instructions issued to valuation experts and the scope of their work • discussed with the Council's valuer the basis on which the valuation was carried out, challenging the key assumptions • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding • undertaken testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>Auditor findings</p> <p>Our audit work has not identified any issues regarding the valuation of property, plant and equipment included within the financial statements.</p> <p>As part of our audit work we also considered how management obtained assurance that assets not revalued in 2017/18 were materially correct. A robust review process was completed during the year following the issues raised as part of our 2016/17 audit in relation to assets not subject to revaluation. This included changing the revaluation date (from 1st April to 31st March), a more extensive review of the asset base not revalued in year, and discussions with the external valuer to establish any contributing factors impacting on asset values (for example obsolescence).</p> <p>The potential estimation uncertainty for assets not revalued was identified by management as up to £944,000. 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 audit risks - continued

Risks identified in our Audit Plan	Commentary
<p>4 Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>Auditor commentary</p> <p>We have completed the following audit work in relation to this risk:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation • gained 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 • reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary. <p>Auditor findings</p> <p>Our audit work has not identified any issues regarding the valuation of the pension fund net liability included within the financial statements.</p>

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Employee remuneration Payroll expenditure represents a significant percentage (22%) of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding obtained the year-end payroll reconciliation and ensured amounts included within the financial statements can be reconciled to the ledger and through to payroll reports investigating any significant adjusting items agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and review any estimates for reasonableness. <p>Auditor findings</p> <p>Our audit work has not identified any issues regarding employee remuneration included within the financial statements.</p>
<p>2 Operating expenses Non-pay expenses on other goods and services also represents a significant percentage (51%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls obtained a listing from the cash book of non-pay payments made in April, and taken a sample of items using the non-statistical sample size calculator and ensure they have been charged to the appropriate year. <p>Auditor findings</p> <p>Our audit work has not identified any issues regarding operating expenses included within the financial statements.</p>

Other matters

This section provides commentary on new issues which were identified during the course of the audit that were not previously communicated in the Audit Plan.

	Issue	Commentary	Auditor view
1	Publication of the draft Annual Governance statement	<p>The national deadline for publication of the Local Authority's draft accounts (subject to audit) was 31st May 2018, which also included the publication of the Annual Governance Statement.</p> <p>However the draft annual governance statement was published in early June 2018 which is not in line with the Accounts and Audit Regulations 2015.</p>	<p>The Council need to ensure that the publication of the draft financial statements (subject to audit) and the Annual Governance Statement is published on their website by 31st May to ensure full compliance with the Audit and Accounts Regulations 2015.</p>
2	A number of assets with a net book value of zero are included within the fixed asset register	<p>As part of our review and reconciliation of the fixed asset register to the financial statements, we identified a number of assets that had a net book value of zero as at 31/03/2018.</p> <p>The inclusion of assets at nil NBV in the fixed asset register:</p> <ul style="list-style-type: none"> a) indicates an inappropriate UEL if the assets are still in used; and b) increases the risk of the Council being unaware of misappropriation of assets <p>Assets that are nil NBV should be disposed of and written out of the fixed asset register if they are no longer in service providing condition.</p>	<p>Discussions were held with management during the course of the audit and a full review was undertaken to establish how many assets were still being utilised by the Council and how many assets needed to be written out of the fixed asset register.</p> <p>The audit team were satisfied with this review and the disclosures within the financial statements were updated accordingly to reflect this. Going forward the Council need to ensure that the fixed asset register is reviewed on a regular basis and the necessary accounting entries are being processed.</p>

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue and capital transactions are accounted for on an accrual basis where above the de-minimus thresholds Government grants and other contributions are recognised where reasonable assurance has been gained that the Council will comply with relevant terms and conditions and it is likely the amounts will be received Income receivable from the sale of goods and rendering of services is recognised in line with the relevant conditions Collection fund income is recognised on an accrual basis 	<ul style="list-style-type: none"> The accounting policies are appropriate under relevant accounting framework i.e. CIPFA Code of Practice The accounting policy for revenue recognition has been adequately disclosed in the notes to the accounts The accounting policies adopted are consistent when benchmarked against other similar Local Government bodies 	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> Useful life of PPE Revaluations Impairments Accruals Valuation of pension fund net liability Provision for NNDR appeals Other provisions 	We discussed the significance of these items, both in terms of value and the extent of judgement and disclosure. We are satisfied with what has been disclosed in relation to critical judgements and significant estimates.	 Green
Other critical 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 be open to challenge by 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	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Governance Committee We have not been made aware of any other 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	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Council.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> 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.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations	<ul style="list-style-type: none"> All information and explanations requested from management was provided.
⑧ Significant difficulties	<ul style="list-style-type: none"> No difficulties have been identified as part of our audit procedures.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and 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>No inconsistencies have been identified/Inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unqualified opinion in this respect – refer to appendix F</p>
② Matters on which we report by exception	<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"> • 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 • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
③ 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.</p> <p>Work is not required as the Council does not exceed the threshold.</p>
④ Certification of the closure of the audit	<p>We intend to certify the closure of the 2017/18 audit of Cannock Chase District Council in the audit opinion, as detailed in Appendix F.</p>

Value for Money

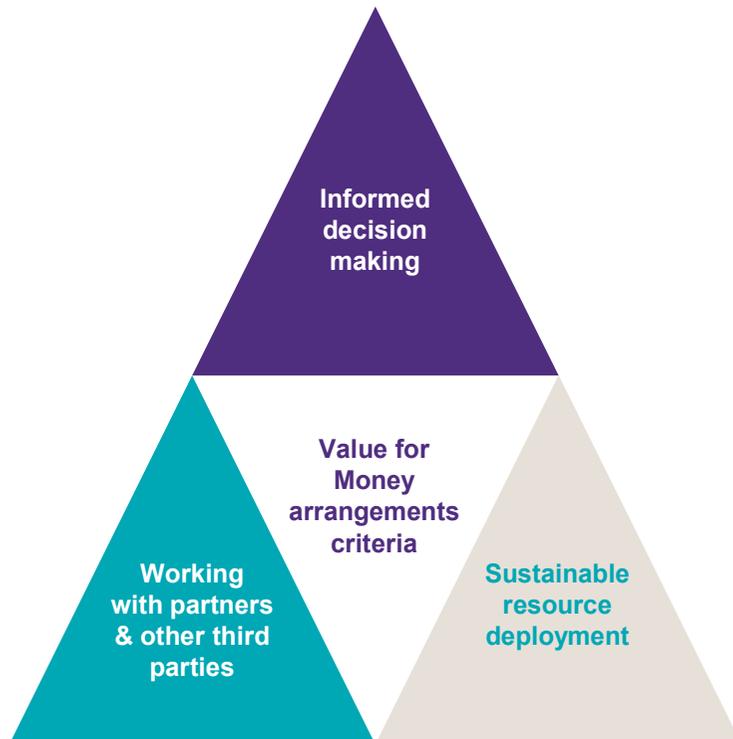
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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 2018 and identified one significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2018.

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 arriving at our conclusion, our main considerations were:

- Follow up of progress made in the implementation of the financial recovery plan, as highlighted as a significant risk in 2016/17
- Assessment of the key assumptions underlying the medium term financial strategy for reasonableness and appropriateness
- Consideration of the level of reserves balances of the Council over the lifetime of the medium term strategy and whether these are in line with minimum requirements

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 15.

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 F.

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.

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	Findings	Conclusion
<p>1 Financial sustainability</p> <p>The Council has a challenging three year budget and significant pressures to manage delivery of services. This relies heavily on ensuring key cost saving measures are met. In response this we have undertaken the following:</p> <ul style="list-style-type: none"> Reviewed the implementation of the financial recovery plan and gained an understanding of progress made in realising savings: and Assessed the key assumptions underlying the medium term financial plan for reasonableness 	<p>One of the main issues identified as part of the 2016/17 VFM assessment was the impact on Business Rates income due to the closure of the Rugeley Power Station. The Council implemented a Financial Recovery Plan in April 2017 to ensure it could continue to deliver a balanced budget for the next four years.</p> <p>A substantial element of the Financial Recovery Plan is the construction and opening of the Mill Green designer outlet village. Once operational this will mitigate much of the loss in Business Rates income. It is also anticipated that it will prompt further regeneration of Cannock town centre. Although there have been some delays in the Mill Green project, the Council and its partners are committed to delivering this and it is on course for opening in 2020.</p> <p>The Council has implemented a range of cost saving measures and identified the planned use of reserves (General Fund working balances) to ensure a balanced budget. The Financial Recovery Plan required the delivery of a minimum of £1.59 million of savings by April 2019 and £1.26 million planned use of working balances over the three years 2017/18 to 2019/20.</p> <p>The Council's General Fund Revenue Budget 2018/19 to 2020/21 was reported to Cabinet in January 2018. This showed an overall improvement in the 2017/18 financial forecast, largely due to the over delivery of the Financial Recovery Plan and higher than anticipated Business Rate income. It also showed an anticipated £234,000 increase in working balances in 2017/18 and a net £401,000 planned use of balances in 2018/19 and 2019/20. An overall reduction in the planned use of balances of £1,093,000</p> <p>The financial outturn for 2017/18 was better than forecast resulting in £703,000 being transferred to General Fund balances compared to the £234,000 anticipated in the medium term budget. The General Fund working balances at 31 March 2018 are £3.14 million.</p>	<p>Auditor view</p> <ul style="list-style-type: none"> The Council's overall financial position and outlook to 2019/20 is better than anticipated. There is still a significant planned use of working balances in 2019/20, but this is largely mitigated by the growth in working balances in 2017/18. The opening of the Mill Green Designer Outlet is a major component of projected income, arising from business rates. Delays in the delivery of this project will have a detrimental effect on the Council's overall financial position in the medium term. The Council needs to ensure that it is managing the risk of significant delays in this project effectively and has adequate financial contingency plans in place. Beyond 2019/20 there is continuing uncertainty over the future funding framework for local government. The details of the revised Business Rate retention system is not yet clear, nor is the future of New Homes Bonus or the impact of a Business Rate revaluation "re-set". The Council need to ensure that it has an appropriate level of reserves to maintain its financial resilience in this period of uncertainty. <p>Management response</p> <ul style="list-style-type: none"> The Council recognises the importance of Mill Green Designer Outlet and continues to work proactively with the developers to manage its delivery. The recent sale of the Council owned site to McArthurGlen being a key milestone towards its opening. Nevertheless, the Council continues to explore all means of delivering efficiency savings together with commercial and other income generation options. The Council has in addition ensured that over £2m of working balances exists to offset any potential delay and the uncertainty that exists in relation to the new financial regime from 2020/21.

Independence and ethics

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 also 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 E

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

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	2,500	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 £2,500 in comparison to the total fee for the audit of £52,109 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.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Action plan

We have identified three recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1 	Internal control, IT issues	<p>Management need to ensure that all internal control points raised within Appendix C are monitored and where applicable agreed actions are implemented to mitigate against any control risks.</p> <p>Management response Agreed subject to comments as included as part of prior year management response included on page 19.</p>
2 	Publication of the draft Annual Governance Statement	<p>Management need to ensure that the draft annual governance statement is published on their website alongside the draft financial statements by 31st May 2019.</p> <p>Management response Agreed.</p>
3 	Assets with a net book value of zero	<p>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>Management response Agreed.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2016/17 financial statements, which resulted in 6 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note one is still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	<p>✓</p> <p>PPE accuracy Ensure adequate checking is completed on the arithmetic accuracy of valuation reports.</p>	<p>Substantive testing has been undertaken on PPE valuations in year, which included agreement of balances included within the local authority's fixed asset register back to completed external valuer's report.</p> <p>No issues have been identified from our procedures and therefore as an audit team we are satisfied that this issue has been addressed.</p>
2	<p>✓</p> <p>PPE valuations Ensure that the potential impact of changes in values is considered for the carrying value of assets not revalued and restate their values if material.</p>	<p>The Council had undertaken a vigorous review/ process during the year to try and address the issue raised in 2016/17.</p> <p>Further work was carried out by the Council including change of revaluation date (from 1st April to 31st March), a greater review of their asset base including a desktop revaluation exercise for DRC assets and closer contact with their external valuer to establish contributing factors that will impact the monetary change for assets not revalued (i.e. Obsolescence).</p> <p>Refer to 'Significant Risks' section within our report for more details.</p>
3	<p>✓</p> <p>Journal authorisation Ensure that all journals are appropriately authorised.</p>	<p>No issues have been identified from our review of authorised journal entries.</p>
4	<p>✓</p> <p>Housing Stock valuation Ensure that the Housing Stock valuation is supported by a certified valuer's report providing details on relevant matters including summarising the instructions given to the valuer, how potential conflicts of interest have been dealt with, the guidance applied in carrying out the valuation and in particular how the beacon principle has been applied, any other matters that may impact on the valuation (particularly consideration of vacant possession).</p>	<p>Changes have been made in year with regards to the housing stock valuation process.</p> <p>The audit team are satisfied that for 2017/18, the overall valuation has been supported by a certified valuer's report that provides sufficient detail.</p>
5	<p>X</p> <p>Internal control, IT issues Ensure that the agreed actions are implemented to mitigate the internal controls identified relating to IT.</p>	<p>A review of all internal related control issues identified within the 2016/17 financial audit have been discussed with management accordingly and updated to reflect their current position. Refer to appendix C for more details. As not all recommendations have been actioned in year, this has therefore been flagged as not yet addressed.</p>
6	<p>✓</p> <p>Housing debt, former tenant arrears Critically review former tenant arrears and write off balances against the bad debt provision that are highly unlikely to be collectible.</p>	<p>Discussions have been held with management regarding the review of Housing arrears, in particular the provision provided for in year and whether these are considered to be a realistic view (i.e based on likelihood of collectability).</p> <p>The audit team are satisfied that a review has been undertaken during the year and associated bad debts that are no longer considered collectable have been written out accordingly.</p>

Assessment

- ✓ Action completed
X Not yet addressed

Follow up of prior year internal control points

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1		<p>Use of generic system administrator account in Open Revenues</p> <p>This condition poses the following risk to the organisation:</p> <p>Generic accounts violate the principle of accountability, where all actions performed in a system can be linked to a named individual</p>	<p>Prior year management response</p> <p>We understand 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> <p>Auditor findings</p> <p>Due to the size of the authority and the requirement of this function within the team, no changes have been made to address this control point for 2017/18. Therefore it remains a control issue and has been reported to management accordingly.</p>
2		<p>Security administration rights granted to those performing financial reporting processes or controls</p> <p>This condition poses the following risks to the organisation:</p> <p>Bypass of system-enforced internal control mechanisms through inappropriate use of administrative functionality by making unauthorised changes to system configuration parameters, creation of unauthorised accounts, making unauthorised updates to their own account's privileges, or deletion of audit logs or disabling logging mechanisms.</p>	<p>Prior year management response</p> <p>Responsibility for user administration with the exception of unlocking and changing passwords will be mainly restricted to the systems team. It is our intention to create audit reports of changes to user roles and responsibilities in order to provide additional reassurance.</p> <p>Auditor findings</p> <p>Updates have been made within the system where reports can be ran to identify changes made within the admin function and who was accountable. However this data is not yet being reviewed by an appropriate member of staff therefore a process has been put in place, however the control remains outstanding.</p>
3		<p>Absence of an up to date IT security policy</p> <p>This condition poses the following risk to the organisation:</p> <p>Without a comprehensive IT Security Policy in place which has been approved by senior management there is a risk that a culture of information security awareness will not be effectively embedded within the Council.</p>	<p>Prior year management response</p> <p>Addendum issued to IT security policy</p> <p>Auditor findings</p> <p>The Local Authority have issued an addendum to their IT security policy in relation to information security awareness. No issues identified and we are satisfied that this no longer represents a deficiency.</p>
4		<p>Weak logical access control within Consilium Total</p> <p>The password parameters for Consilium Total require users to create a password with at least six characters. This is below the recommended minimum length of eight characters.</p> <p>This condition poses the following risks to the organisation: Compromise of user accounts through password guessing or cracking; and/or Misuse of Consilium Total system accounts leading to loss of accountability of actions performed</p>	<p>Prior year management response</p> <p>The password length has now been increased to eight characters with a mixture of upper and lower case with effect from March 2017.</p> <p>Auditor findings</p> <p>The Local Authority have now updated the minimum length requirement within Consilium Total to allow for a minimum length of at least eight characters. No issues identified and we are satisfied that this no longer represents a deficiency.</p>

Assessment

-  Deficiency – risk of inconsequential misstatement
-  No longer represents a deficiency

Audit Adjustments

Impact of adjusted misstatements

There were no adjusted misstatements.

Impact of unadjusted misstatements

There are no unadjusted misstatements.

Impact of prior year unadjusted misstatements

There were no prior year unadjusted misstatements identified within the 2016/17 financial statements.

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 omission	Detail	Adjusted?
Accounting policies	Adjustments were made to the 'General principles' section within the Council's accounting policies to demonstrate that the financial statements are prepared on a Going Concern basis.	✓
Note 43 – Pension prepayment	Adjustments were made to Note 43 within the financial statements to help provide greater clarity over the 2017/18 pension prepayment that the local authority have paid in year.	✓
Senior Officer Remuneration	Additional disclosures were added to the note, to provide substance over the shared roles covered by the shared service arrangement between Stafford Borough Council and Cannock Chase District Council, clearly documenting where overall employment lies for each role and with which entity.	✓
Related Parties	Additional information was included within the note to document the shared service arrangements between Stafford Borough Council and Cannock Chase District Council.	✓
Financial Instruments	Note disclosures were updated to ensure that both financial assets and financial liabilities were appropriately recognised in line with code requirements.	✓
CIES 2016/17 Restated figures	The 2016/17 audited Comprehensive Income and Expenditure Statement figures were restated in year due to a senior management restructure undertaken by the Local Authority. Updated disclosures were added to the face of the statement to demonstrate this and also to link the primary stated to associated notes for more detailed analysis.	✓
Other minor disclosures	A number of minor changes were made to the draft financial statements to help provide clarity and ensure full compliance with the CIPFA Code of Practice.	✓

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	52,109	52,109
Grant Certification	12,807	TBC
Total audit fees (excluding VAT)	£64,916	TBC

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

Non Audit Fees

Fees for other services	Fees
Audit certification – Pooling of Housing Capital Receipts (indicative fee)	2,500
	£2,500

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 2018 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:
give a true and fair view of the financial position of the Authority as at 31 March 2018 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 2017/18; 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.

Who we are reporting to

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.

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 set out on pages **[**xx to xx**]**, the Narrative Report and the Annual Governance Statement, 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 course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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(s) x to x], 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 2017/18, which 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 the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit and Governance Committee is Those Charged with Governance.

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. 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 2018.

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 2018.

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 the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Richard Percival

Richard Percival
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

The Colmore Building
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26 July 2018



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