



The Annual Audit Letter for Cannock Chase District Council

Year ended 31 March 2020

25 March 2021



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cannock Chase District Council ('the Council') for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 30 November 2020.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,375,000, which equated to 2% of the Council's gross cost of services.
Financial Statements opinion	<p>We gave an unqualified opinion on the Council's financial statements on 30 November 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund, given uncertainties created by the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.

Certificate We certified that we have completed the audit of the financial statements of Cannock Chase District Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Working with the Council

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote working arrangements and remote auditing. This entailed remote accessing financial systems, video calling, sharing screens to review working papers. Consequently, more time was required to discuss and resolve audit queries and review audit work. All information and explanations requested from management was provided.

The audit team note their thanks to the finance team for the provision of working papers, evidence and explanations in what has been an exceptional year.

Grant Thornton UK LLP
March 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £1,375,000, which is 2% of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration disclosures, at £100,000.

We set a lower threshold of £69,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

The scope of our audit

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

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>COVID-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <p>Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</p> <p>Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</p> <p>Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</p> <p>Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</p> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> Engaged with management to understand the impact of the Covid-19 pandemic on the organisation's ability to prepare the financial statements, update financial forecasts and assessed the implications on our audit approach Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise Evaluated the adequacy of the disclosures in the financial statements, in light of the Covid-19 pandemic. Evaluated whether sufficient audit evidence using alternative approaches was obtained for the purposes of our audit whilst working remotely Evaluated whether sufficient audit evidence was obtained to corroborate significant management estimates, such as asset valuations, recovery of receivable balances and estimation of pension liability Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment 	<p>The Council updated its internal controls in light of COVID-19, in light of increased home and remote working. The finance team was able to demonstrate updated process notes which had been adapted for remote working. For example in relation to journals, accounts payable and accounts receivable processes. We were able to obtain sufficient evidence, by working with the finance team remotely.</p> <p>Management updated the Council's financial plans, identified the key risks and potential planned mitigations in relation both income losses and cost pressures arising from the pandemic. Significant disclosures were included in the narrative report setting this out in high level detail. We considered the impact on going concern in detail, held discussions with management and reviewed supporting evidence. Through these procedures we gained reasonable assurance that the Council remained a going concern.</p> <p>There were no material errors or other matters to report arising from the COVID-19 risk.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the amounts involved and the sensitivity of this estimate to changes in key assumptions. We also noted that the Council's external valuer, similar to many other local authority PPE valuers, included a material valuation uncertainty note within their valuation report in light of the COVID-19 pandemic.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert wrote to the council's PPE valuer to confirm the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding of, the Council's valuer's report and the assumptions that underpin the valuation tested revaluations made during the year to see if they had been 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 has satisfied themselves that these are not materially different to current value at year end 	<p>Our audit work did not identify any issues in respect of valuation of land and buildings in respect of the assumptions and methodologies applied in deriving the estimate.</p> <p>We identified that the Council's valuer included to a material valuation uncertainty paragraph in their valuation report. In response to this matter, the Council has included additional disclosures in its final accounts as an audit adjustment. We included an emphasis of matter in our audit opinion to highlight this material valuation uncertainty.</p>

Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£61.7m in the Council's Balance Sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability was not materially misstated; and evaluated designs of associated controls • evaluated instructions issued by management to the Council's actuary (management's expert) for this estimate and considered the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension assets and liabilities valuation • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • tested the consistency of the pension assets and liabilities and related disclosures in the notes with the actuarial report • undertook procedures to confirm the reasonableness of actuarial assumptions made by the actuary, through reviewing the report of the auditor's actuary (as auditor's expert) and performing any additional procedures suggested therein; and • obtained assurances from the auditor of Stafford Pension Fund regarding controls affecting the validity and accuracy of the pension fund's membership, contributions, benefits data and asset valuations data 	<p>We undertook a number of additional procedures during the course of auditing the pension liability in response to both Council specific assumptions and sector wide developments. We raised additional queries regarding: source data used by the actuary; significant movements in pension assets and liabilities relating to experience items; the impact of the McCloud remedy; and additional challenge of specific assumptions made by the actuary.</p> <p>We also engaged further with the pension fund where necessary - through the finance team - to further understand these matters. We made further enquiries with the actuary and met with the actuary. Through these procedures, were able to resolve our queries satisfactorily to gain reasonable assurance over the net pension liability.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals and discussed with management the journal posting and authorisation process • analysed journals listings and determined a risk based criteria for selecting high risk or unusual journals for detailed review and testing • tested a sample of unusual journals recorded during the year for appropriateness and corroboration, on a risk based approach • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions 	<p>There were no significant changes to the Council's processes in relation to journals during the year, or the assumptions and methodology used in relation to significant accounting estimates. No unusual transactions were identified during the course of our audit.</p> <p>Our audit work did not identify any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 30 November 2020.

Preparation of the financial statements

The Council presented us with draft financial statements in July in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Accounts Committee on 30 November 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in July.

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

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold on 30 November 2020.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. No such use of powers were deemed necessary as part of the 2019/20 audit.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Cannock Chase District Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

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

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

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Risk identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Delivery of financial plans and future sustainability</p> <p>Cannock Chase District Council has experienced reductions in grant funding and limited increases in its council tax and business rates precept income in recent years.</p> <p>At the same time, the council has been experiencing cost pressures in relation to the range of services it delivers and uncertainty over future funding. The council is nevertheless obligated, under statute, to set a balanced budget for each financial year and has an internal policy to maintain positive reserves and deliver its efficiency plan.</p> <p>Our view is therefore that delivery of financial plans and future sustainability was a key Value for Money risk in 2019/20. This risk is linked mainly to sustainable resource deployment and to a lesser extent, the informed decision making VfM criteria.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> • Review performance in the period by comparing outturn position to budgeted for revenue and capital budgets, as well as assessing any achievement or shortfall of savings targets where applicable • Made enquiries with key officers to understand processes in place for future medium term financial planning; and reviewed underlying documentation to ensure assumptions were reasonable • Considered management's responses to the level of overpayments in respect of Housing Benefits, which was subject to an internal audit review during the year • Considered the impact of COVID-19, the council's planned mitigations and adequacy of central government funding to offset the impact 	<p>The Council had reported an adverse (net) expenditure variance of £76,000 in 2019/20 against the planned revenue budget for the year. Performance against budgets were reported to cabinet on a monthly basis and the year-end variances against expenditure budgets for each portfolio were, on average, between 1-6% within budget. This indicates effective financial planning and budgetary controls. Variances against income budgets were on average 10%, reflecting higher income levels being subject to variation in service user demand.</p> <p>The Council had set a balanced budget for 2019/20 and transferred £292,000 at the end of the year from its working balance. This was slightly higher than the planned budgeted contribution of £227,000. We note that the Council was compliant with its own internal policy to maintain a general fund balance at a minimum of £1m, having achieved the required minimum general fund balance of £1m at the end of 2019/20. We also noted that income from business rates was higher than anticipated during the year. This was due to an increase of £800K due to a change in the distribution methodology.</p> <p>The capital programme outturn indicates that the council had planned capital works of £1.5m, with actual spend coming in below that level, at £1.1m. The variance was mainly due to slippage against schemes such as Hawkes Green and vehicles ordered for the Environmental services which were not yet delivered at year end. These schemes and the associated capital expenditure are expected to recommence in 2020/21.</p> <p>Cannock Chase District Council had a medium term financial plan in place during 2019/20. However the plan was superseded by the unanticipated impacts of the COVID-19 pandemic. The financial impact of COVID-19 was, to a large extent, delayed until the 2020/21 financial year as lockdown commenced towards the end of the 2019/20 financial year. The Council's management acted relatively quickly to update its three year financial plan in light of COVID-19 and at the time the external audit concluded, had put in place clear further mitigations.</p> <p>At the time of completing the audit, the latest plans had been reported to Cabinet in November 2020, indicating significant cost pressures and income shortfalls. The combined impact of COVID-19 for 2020/21 is estimated to be £3.4m in a worst case scenario and £1.1m in a best case scenario. This is partly offset by a significant balance of government funding allocated to the Council in 2020/21 to mitigate the impact. The Council also has access to PwLB borrowing within its capital financing requirements. We note that the Council is likely to require use of its earmarked reserves in 2020/21 and its working balances 2021/22, and has identified need for efficiencies each of these years; there is also continued uncertainty about future levels of government funding.</p> <p>Based on our work, we were satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources in 2019/20. We highlighted that the impact of COVID-19 could be significant for the Council and that the future models of funding in Local Government remained uncertain. Cannock Chase District Council therefore faces significant challenge in the medium term. We therefore continue to monitor this risk closely going forward.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit. Provision of non-audit services are detailed on the next page.

Reports issued

Report	Date issued
Audit Plan	6 March 2020
Audit Findings Report	26 November 2020
Annual Audit Letter	25 March 2021

Fees

	Planned	Actual fees
	£	£
	47,624	57,148

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £40,124 assumed that the scope of the audit did not significantly change. There are a number of areas where the scope of the audit has changed, which led to additional work and consequently additional fees were agreed with the Council. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee variation proposed
Raising the bar	The Financial Reporting Council (FRC) had highlighted that quality of work by all audit firms needed to improve further across local audit. This required additional supervision and leadership of audit teams, as well as additional procedures to enable further challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	2,500
Pensions – IAS 19	FRC had also highlighted that the quality of work by audit firms in respect of IAS 19 and pension assets/liabilities needed to improve across local government audits. Accordingly, we increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	1,750
PPE Valuation – work of experts	As above, the Financial Reporting Council had highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We increased the volume and scope of our audit work to reflect this.	1,750
New standards & developments	Limited additional work was required for IFRS16 implementation and corresponding disclosure required in 19/20 under IAS8 in respect of IFRS16 as a standard issued but not yet adopted.	1,500
Additional complexity and delays due to Covid-19 and remote auditing	Covid-19 has had a significant impact on the council's external audit. It has necessitated updating of audit planning; enhanced challenge of management's assumptions, estimates and forecasts; financial resilience assessment and remote auditing. This significantly increased time taken on the audit. We understand from discussions with the ICAEW that this is similar to other firms.	9,524
Total		£17,024

A. Reports issued and fees continued

Fees for non-audit services

Service	Planned Fees £ (ex. VAT)
Audit related services	
- Housing benefit subsidy claim certification - 2019/20 planned fee	£15,500
- Housing benefit subsidy claim certification – 2018/19 actual fee	£16,500
- Certification of Housing Capital receipts grant 2019/20	£2,500
Non-audit related services	
- None	

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 table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

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



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