



Annual Audit Letter

Year ending 31 March 2018

Cannock Chase District Council

August 2018



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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 2018.

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 26 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £1,277,000, which is 2% of the Council's gross revenue expenditure from the prior year.
Financial Statements opinion	We gave an unqualified opinion on the Council's financial statements on 26 July 2018.
Whole of Government Accounts (WGA)	We did not perform any detailed work on the Authority's consolidation return as they are below the reporting threshold. This is in line with guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

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.

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 26 July 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Cannock Chase District Council in accordance with the requirements of the Code of Audit Practice.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the accounts before the national deadline, releasing your finance team for other work.
- Improved financial processes – we worked with you to streamline your processes including journals, fixed assets and IT.

- Sharing our insight – we provided regular audit and Accounts committee updates covering best practice. We also shared our thought leadership reports
- Providing training – we provided your teams with training on financial accounts and annual reporting
- We met regularly with the Deputy Managing Director and Chief Accountant to discuss some of your key challenges and share our insight into the sector.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2018

Audit of the Accounts

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 accounts to be £1,277,000, which is 2% of the Council's gross revenue expenditure from the prior year. We used this benchmark as, in our view, users of 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 of £100,000 for senior officer remuneration – this is due to the sensitive nature and level of public interest in this disclosure .

We set a lower threshold of £63,850, 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 narrative report and annual governance statement to check they are 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 is 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 Accounts

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>1 Management override of 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>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>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>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 significant issues.</p>
<p>2 Valuation of pension fund net liability</p> <p>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>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>Our audit work has not identified any issues regarding the valuation of the pension fund net liability included within the financial statements.</p>

Audit of the Accounts

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>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>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 about 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. • undertook 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>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>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 26 July 2018, in advance of the national deadline.

Preparation of the accounts

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

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit and Governance Committee on 26 July 2018.

In addition to the key audit risks reported above, we identified the following issues throughout our audit that we have asked management to address for the next financial year:

- The Annual Governance Statement was not published in line with the requirements of the Accounts and Audit Regulations 2015
- Assets with a net book value of nil should be written out of the fixed asset register where they are no longer in service providing condition

Our recommendations are included in appendix B of the report.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. The Narrative report was published on its website in the Statement of Accounts in line with the national deadlines. The Annual Governance statement was published later on 12 June 2018.

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.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Cannock Chase District in accordance with the requirements of the Code of Audit Practice.

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 November 2017 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 key risks where we concentrated our work.

The key 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 2018.

Value for Money conclusion

Key Value for Money Risks

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.

A. Reports issued and fees

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

Report	Date issued
Audit Plan	27 March 2018
Audit Findings Report	26 July 2018
Annual Audit Letter	6 August 2018

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

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

Fees for non-audit services	Final fee
Pooling of Housing Capital Receipts Certification	£2,500
Total non-audit fees (excluding VAT)	£2,500

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

B. Recommendations

	Assessment	Issue and risk	Recommendations
1	●	Internal control, IT issues	<p>Management need to ensure that all internal control points raised in the prior 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</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



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