



# The Audit Findings for Cheshire West and Chester Council

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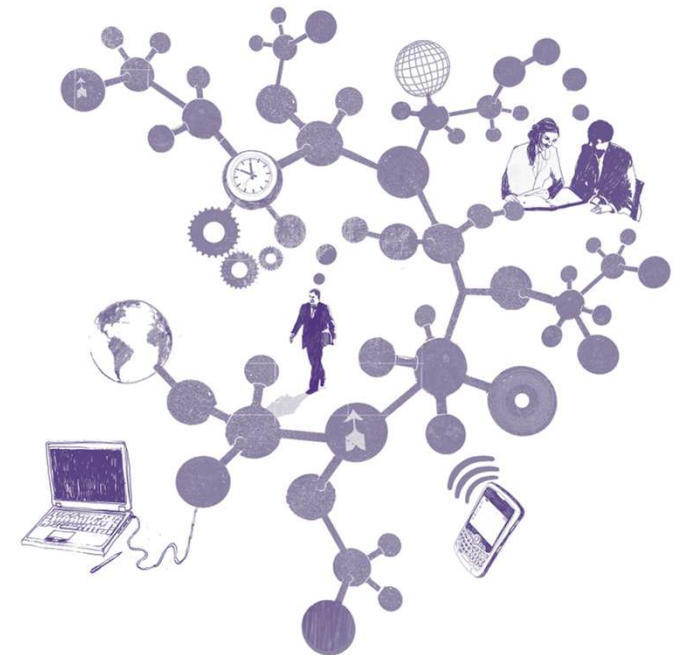
**Year ended 31 March 2013**

8 August 2013

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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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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## Section 1: Executive summary

**01. Executive summary**

02. Audit findings

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04. Fees, non audit services and independence

05. Communication of audit matters

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Cheshire West and Chester Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have not had to alter or change the planned approach, we set out to you in our Audit Plan in March 2013.

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

- the Council's two PFI schemes;
- Whole of Government Accounts;
- Investment confirmation letters for investments held;
- obtaining and reviewing the final management letter of representation;

- review of the final version of the Annual Governance Statement;
- updating our post balance sheet events review, to the date of the opinion; and
- our final review procedures.

## Key issues arising from our audit

### Financial statements opinion

We expect to provide an unqualified opinion on the financial statements.

Our audit work has not identified any adjustments affecting the Council's reported financial position. The draft and audited financial statements record net expenditure of £263m. We have agreed with officers a number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the financial statements are:

- no significant issues were identified;
- the draft financial statements were provided at the start of our audit work and high quality working papers were made available;
- Officers were available throughout our audit fieldwork to provide additional supporting information in a timely manner and resolved our queries promptly.

Further details are set out in section 2.

Working closely with officers throughout the year we have brought forward the completion of the audit in line with the earlier Audit and Governance Committee on 27 August.

### **Value for money conclusion**

We are pleased to report that, based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VFM conclusion.

Further detail of our work on Value for Money is set out in section 3.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable. If any significant issues arise we will update the Audit and Governance committee as appropriate.

### **Controls**

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention, except for some minor IT control weaknesses.

Further details are provided within section 2.

### **The way forward**

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

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Director of Resources and the finance team.

### **Acknowledgment**

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.

**Grant Thornton UK LLP**  
**8 August 2013**

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## Section 2: *Audit findings*

01. Executive summary

**02. Audit findings**

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05. Communication of audit matters

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 19 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 19 March 2013.

## **Audit opinion**

We anticipate that we will provide the Council with an unqualified opinion. Our audit opinion is set out at Appendix B.

## **Letter of Representation**

We have provided the Council with a suggested letter of representation, this is included at Appendix C.



## Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>Improper revenue recognition</b></p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<ul style="list-style-type: none"> <li>• review and testing of revenue recognition policies</li> <li>• testing of material revenue streams</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p><b>Management override of controls</b></p> <p>Under ISA 240 there is a presumed risk of management over-ride of controls</p>	<ul style="list-style-type: none"> <li>• testing of journals entries</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

## Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Operating expenses</b></p>	<p>Operating expenses understated</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• tested operating expenses including for unrecorded liabilities, whether the expense is valid, that the cost is recorded in the correct expenditure code and that VAT has been correctly treated.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Operating expenses</b></p>	<p>Creditors understated or not recorded in the correct period</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• substantive testing of payables and accruals including:                             <ol style="list-style-type: none"> <li>I. test of a sample of payables and accruals</li> <li>II. attribute testing on a sample of expenditure</li> <li>III. assessment of robustness of assumptions and estimates underlying accruals and provisions</li> </ol> </li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our testing of creditors identified one instance of a Care Home being paid for several months after the individual had left. The Council's internal controls did pick up this error and recover the overpayment, but only several months later. Whilst the responsibility for informing the Council rests with the individual and Care Home, the Council should consider the adequacy of current arrangements for identifying overpayments. The accounts are correctly stated.</p>

## Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Employee remuneration</b></p>	<p>Remuneration expenses not correct</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• substantive testing of employee remuneration expenditure including                             <ol style="list-style-type: none"> <li>I. analytical procedure to determine whether movements in salaries and other pay related costs are reasonable and materially correct</li> <li>II. attribute testing on a sample of pay costs</li> <li>III. agreement of related disclosures to the payroll system or other appropriate source document.</li> </ol> </li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Welfare expenditure</b></p>	<p>Welfare benefits improperly computed</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• substantive testing of welfare expenditure.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Whilst the accounts are correctly stated, our work identified that the Council needs to introduce a robust reconciliation process for reconciling housing and council tax benefits in the HB claim to the financial ledger. Officers are reviewing current processes with the expectation of introducing a more robust reconciliation process as part of the 2013/14 closedown of accounts.</p>

## Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Housing rent</b>	Revenue transactions not recorded.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• substantive testing of housing expenditure.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our work identified that the methodology for calculating the HRA rent arrears bad debt provision for current tenants, is based on the size of the outstanding debt. We have recommended that existing arrangements be reviewed and consideration be given to calculating the bad debt provision using an aged debt analysis.</p>
<b>Property, plant &amp; equipment</b>	PPE activity not valid	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• substantive testing of property, plant and equipment including existence, additions and disposals.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<b>Property, plant &amp; equipment</b>	Revaluation measurement not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documentation of our understanding of processes and key controls over the transaction cycle</li> <li>• walkthrough of the key controls to assess whether those controls are designed effectively</li> <li>• substantive testing of property, plant and equipment valuation.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## Audit findings against other risks

### **Review of Information Technology (IT) Controls**




As part of our planned programme of work, our information systems specialist team undertook a high level review of the general IT control environment at the Council. This was undertaken as part of the review of the internal controls system and included a follow up of the issues that had been raised by the previous auditor, the Audit Commission. We are pleased to report that no significant issues arose from our work, however, we identified a number of minor areas where the Council's existing IT arrangements can be further developed including :

- transferring responsibility for administrative access for security within the Capita Academy system to IT system administrators rather than end users
- enforcing password complexity within Oracle Financials and Capita Academy
- periodically performing user account reviews for appropriateness of access
- developing formal batch processing policies and procedures.

Our recommendations are set out at Appendix A.

## Accounting policies, estimates & judgements


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

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Income is accounted for in the year the activity it relates to takes place, i.e. on accruals basis.</li> <li>Income is recorded when it is earned and not received.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's approach to accounting for income is robust and in accordance with industry practice</li> <li>Disclosure of the revenue recognition policy is adequate .</li> </ul>	 <b>Green</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include :                             <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– pension fund valuations and settlements</li> <li>– revaluations</li> <li>– impairments</li> <li>– Provisions</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Where the Council has made judgements or estimates in the financial statements, these have been supported with robust methodologies and clear explanations of assumptions applied</li> <li>Disclosure of judgements and estimates is considered appropriate although we have recommended the approach to calculating the HRA bad debt provision for current tenant arrears be reviewed.</li> </ul>	 <b>Green</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</li> </ul>	 <b>Green</b>

### Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

## Adjusted misstatements

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

There are no adjustments to the draft financial statements that have been identified during the audit process.

## Misclassifications & 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.

We have not identified any unadjusted misstatements.

Adjustment type	Value £ 000	Account balance	Impact on the financial statements
1 Misclassification	(777)	Creditors	A number of debit balances within creditors to be reclassified as debtors including for example, Brio which included a negative creditor balance of £653,000. There is no impact on the Council's year end outturn position.
	777	Debtors	
2 Disclosure	-	Annual Governance Statement (AGS)	There was no explicit reference in the AGS for responsibility for ensuring a sound system of governance and internal control as required by the Code of Practice on Local Authority Accounting in the UK. This has now been added.

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have considered potential sources of significant fraud through our audit procedures. We have also discussed fraud controls and cases in year with officers and discussed fraud issues with the Audit and Governance Committee. We have not identified any material fraud during our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council.</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed. We have recommended to officers that consideration be given to disclosing the relevant member name in the Related Party note along with the organisation and value from 2013/14 onwards.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>



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## Section 3: Value for Money

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# Value for Money

## Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

## Key findings

### Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control

Overall our work highlighted that whilst the Council has faced, and continues to experience significant financial pressures and risks, its current arrangements for securing financial resilience are effective.

### Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. Our work noted the achievement of some £15m in cost improvements during 2012/13, helping to achieve an underspend year end revenue outturn position of £1.5m. However, looking ahead, the Council needs to ensure its Medium Term Financial Plan (MTFP) remains responsive given the £43m savings still required between 2013/14 and 2016/17.

### Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, 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 2013.

To support our VFM conclusion against the specified criteria we performed a risk assessment against VFM risk indicators specified by the Audit Commission. Following completion of our work there are no residual risks to bring to your attention.

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## Section 4: Fees, non audit services and independence

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## Fees, non audit services and independence

We confirm below our final fees charged for the audit and the provision of non-audit services during 2012/13.

### Fees

	Per Audit plan £	Actual fees £
Council audit	203,133	203,133
Grant certification	45,900	45,900
<b>Total audit fees</b>	<b>249,033</b>	<b>249,033</b>

### Fees for other services

Service	Fees £
Regional Growth Fund Due Diligence	19,430

### Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

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# Communication of audit matters to those charged with governance

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

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

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

# Appendices

## Appendix A: Action plan - Accounts

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council needs to introduce a robust reconciliation process for reconciling housing and council tax benefits in the HB claim to the financial ledger.	Low	The Council will seek to develop control reports from its benefit payments system that enable it to reconcile between assessed benefits and cash payments made.	October 2013  Technical Finance/ Revenues and Benefits
2	The methodology for calculating the HRA rent arrears bad debt provision for current tenants, is based on the size of the outstanding debt. The Council should review its approach and consider using an aged debt analysis to inform the provision.	Low	In light of the changes to Housing Benefit payments introduced by the Welfare Reform Act, both the levels of rent arrears and the mechanism for assessing the scale of potential bad debts are scheduled to be reviewed in 2013-14. In determining the need for any debt provision the age of the outstanding debt will be specifically considered.	March 2014  HRA Client Monitoring Team



## Appendix A: Action plan - Accounts

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	To aid the user of accounts, figures included within the Explanatory Foreword should be clearly visible within the main financial statements without the need for reconciliation.	Low	<p>The Explanatory Foreword is intended to be both a readily understandable report on the Council's financial activities and a summary of the accounts. Given how information has to be presented in the Accounts achieving the former sometimes requires a broader approach to the latter.</p> <p>The Foreword incorporates information from outside the Accounts such as the budget report, outturn report, performance indicators, capital delivery. These help provide context to the financial details in the Accounts but will never be visible in the Accounts.</p> <p>This said, clarity could be improved in some areas and a review of the Foreword's content will be undertaken to ensure that an appropriate balance is struck.</p>	<p>March 2014</p> <p>Technical Finance</p>
4	Consideration be given from 2013/14, to disclosing the relevant member name in the Related Party note in addition to the existing organisation name and value of transaction.	Low	<p>There is no requirement to include the names of officers or Members who have interests in parties with whom the Council does business. The Council does not typically name individuals in such documents as similar information is already reflected in the published register of interests.</p> <p>In the interests of transparency consideration will be given as to whether including these additional details would be of value to the Borough's residents.</p>	<p>March 2014</p> <p>Technical Finance</p>

## Appendix A: Action plan - Accounts

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	Our testing of creditors identified one instance of a Care Home being paid for several months after the individual had left. The Council should consider the adequacy of its current review arrangements to ensure payments are stopped promptly.	Low	<p>Where services cease there is a clear requirement for the care provider to inform the Council at the first opportunity. Where this does not happen then payment may continue to be made for a short period before being recovered in full, as was the case in this instance</p> <p>Prompt recording of any changes in circumstance will ensure that payments are ceased where appropriate, regardless of the actions or inactions of the care provider. A review of current arrangements will be undertaken to ensure that existing processes are sufficient and being adhered to.</p>	<p>December 2013</p> <p>Client Finance</p>

## Appendix A: Action plan – Information Technology

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
6	Responsibility of administering security within Capita Academy and Oracle Financials should be performed by system administrators. Password complexity should also be enforced within these systems.	Low	<p>Responsibility for all aspects of ICT system administration, including who undertakes roles such as granting system access, is being reviewed as part of the design process for the shared services Separate Legal Entity (SLE). Revised protocols will be considered and implemented where necessary as part of this process.</p> <p>Options being considered already include the purchase of a tool which monitors access and activities within the system. This is seen as an enhanced control to the system access process and the manual controls already in place to monitor access and system security.</p>	<p>April 2014</p> <p>Shared Services Programme Board</p>
7	<p>Batch processing arrangements for Oracle Financials and Capita Academy need to be further developed by:</p> <ul style="list-style-type: none"> <li>• establishing policies and procedures covering batch administration, monitoring and error handling;</li> <li>• ensuring system administrators are responsible for administration;</li> <li>• establishing a formalised change control process for modifying batch jobs and schedules;</li> <li>• Introducing a formalised batch processing monitoring process;</li> <li>• enabling the account lock out facility.</li> </ul>	Low	<p>As reflected in the previous recommendation the administrative processes governing the operation of all the Councils systems are being reviewed in advance of the implementation of the SLE.</p> <p>The outcomes of this redesign process will, amongst other things, ensure that the administrative processes for batch processes are robust and undertaken by the most appropriate person.</p> <p>The level of documentation held will be reviewed to ensure that it is sufficient to manage the risks associated with the respective systems and roles.</p>	<p>April 2014</p> <p>Shared Services Programme Board</p>

## Appendix A: Action plan – Information Technology

### Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
8	Management should periodically perform formal reviews of user accounts and group membership assignments within Active Directory for appropriateness.	Low	Existing controls ensure that responsibilities are removed when individuals cease employment but changes are not always captured when individuals change roles. ICT and HR will need to work together to identify a process to ensure permissions are commensurate with the duties performed and are reviewed periodically.	Mar 13 ICT Shared Service/ Human Resources

## Appendix B: Audit opinion

**We anticipate we will provide the Council with an unqualified audit report**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE WEST AND CHESTER COUNCIL**

#### **Opinion on the Authority financial statements**

We have audited the financial statements of Cheshire West and Chester Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Cheshire West and Chester Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of the Chief Finance Officer and Auditor**

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

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements: give a true and fair view of the financial position of Cheshire West and Chester Council as at 31 March 2013 and of its expenditure and income for the year then ended; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

#### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we report by exception**

We report to you if: in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; we issue a report in the public interest under section 8 of the Audit Commission Act 1998; we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

#### **Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

##### ***Respective responsibilities of the Authority and the auditor***

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:  
securing financial resilience; and  
challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2013.

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 form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

***Conclusion***

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Cheshire West and Chester Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

**Certificate**

We certify that we have completed the audit of the financial statements of Cheshire West and Chester Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Judith Tench  
Engagement Lead  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building  
Liverpool  
L3 1PS

August 2013

# Appendix C: Letter of Representation

Grant Thornton UK LLP  
 Royal Liver Building  
 Liverpool  
 L3 1PS  
 27 August 2013

Dear Sirs

## Cheshire West and Chester Council

### Financial Statements for the year ended 31 March 2013

This representation letter is provided in connection with the audit of the financial statements of Cheshire West and Chester Council for the year ended 31 March 2013 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

#### Financial Statements

- i. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code") as adapted for International Financial Reporting Standards; in particular the financial statements give a true and fair view in accordance therewith.
- ii. We have complied with the requirements of all statutory directions and these matters have been appropriately reflected and disclosed in the financial statements.
- iii. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- iv. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

- v. We are satisfied that the material judgements used by us in the preparation of the financial statements are soundly based, in accordance with the Code, and adequately disclosed in the financial statements. There are no further material judgements that need to be disclosed.
- vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities for IAS19 disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant retirement benefits have been identified and properly accounted for (including any arrangements that are statutory, contractual or implicit in the employer's actions, that arise in the UK or overseas, that are funded or unfunded).
- vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the code.
- viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the code requires adjustment or disclosure have been adjusted or disclosed.
- ix. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- x. We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

#### Information Provided

- xi. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - b. additional information that you have requested from us for the purpose of your audit; and
  - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xii. We have communicated to you all deficiencies in internal control of which management is aware.

# Appendix C: Letter of Representation

- xiii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xiv We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xv We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:
  - a. management;
  - b. employees who have significant roles in internal control; or
  - c. others where the fraud could have a material effect on the financial statements.
- xvi We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xvii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xviii We have disclosed to you the entirety of the Council's related parties and all the related party relationships and transactions of which we are aware.

## Annual Governance Statement

- xix We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS

## Approval

The approval of this letter of representation was minuted by the Council's Audit and Governance Committee at its meeting on 27 August 2013.

### Signed on behalf of the Council

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....



## Appendix D: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

### Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 19 March 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	<b>Yes Page 11 Need to introduce reconciliation</b>
Cost of services – Housing revenue	HRA	Other	Housing revenue transactions not recorded	No	<b>Yes Page 12 Review calculation of Provision</b>
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income <sup>9</sup>	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

## Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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