Public Document Pack

ASDV Shareholder Committee

Agenda

Date:	**Wednesday, 22nd January, 2020**
Time:	**2.00 pm**
Venue:	**Committee Suite 1, 2 & 3, Westfields, Middlewich Road, Sandbach CW11 1HZ**

The agenda is divided into 2 parts. Part 1 is taken in the presence of the public and press. Part 2 items will be considered in the absence of the public and press for the reasons indicated on the agenda and in the report.

PART 1 – MATTERS TO BE CONSIDERED WITH THE PUBLIC AND PRESS PRESENT

1. **Apologies for Absence**

2. **Declarations of Interest**

   To provide an opportunity for Members and Officers to declare any disclosable pecuniary and non-pecuniary interests in any item on the agenda.

3. **Minutes of Previous meeting** (Pages 3 - 8)

   To approve the minutes of the meeting held on 28th November 2019.

4. **Group of Companies' External Audit Findings and Action Plan 2018/2019** (Pages 9 - 104)

   To consider a report on the audits of the 2018-19 Annual Accounts for Orbitas, Transport Service Solutions, ANSA, Civicance, Skills and Growth Company and Engine of the North.

5. **Recruitment of Co-opted Members to Shareholder Committee** (Pages 105 - 106)

   To note the proposed timetable for the appointment of the co-opted members to the Shareholder Committee, and agree the interview panel members.

Please contact	Paul Mountford, Executive Democratic Services Officer
Tel:	01270 686472
E-Mail:	paul.mountford@cheshireeast.gov.uk

6. **Exclusion of the Press and Public**

The reports relating to the remaining items on the agenda have been withheld from public circulation and deposit pursuant to Section 100(B)(2) of the Local Government Act 1972 on the grounds that the matters may be determined with the press and public excluded.

The Committee may decide that the press and public be excluded from the meeting during consideration of the following items pursuant to Section 100(A)4 of the Local Government Act 1972 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and public interest would not be served in publishing the information.

PART 2 – MATTERS TO BE CONSIDERED WITHOUT THE PUBLIC AND PRESS PRESENT

7. **ASDV Change Programme**

To receive a verbal update on progress with the ASDV Change Programme.

8. **Feedback from Corporate Overview and Scrutiny Committee Meeting**

To receive verbal feedback from the Corporate Overview and Scrutiny Committee on the progress report from the Shareholder Committee presented on 9^{th} January 2020.

9. **Review of Strategic Risk Register** (Pages 107 - 108)

To review the risk register maintained by the Committee in light of recent business.

Membership: Councillors S Carter (Chairman), M Goldsmith (Vice-Chairman), S Handley, S Pochin and L Smetham

CHESHIRE EAST COUNCIL

Minutes of a meeting of the **ASDV Shareholder Committee**
held on Thursday, 28th November, 2019 at Committee Suite 1,Westfields,
Middlewich Road, Sandbach CW11 1HZ

PRESENT

Councillor S Carter (Chairman)
Councillor M Goldsmith (Vice-Chairman)

Councillors S Pochin and L Smetham

Officers
Frank Jordan, Executive Director Place
Asif Ibrahim, Head of Legal Services
Paul Goodwin, Finance Manager
Vicki Godfrey, Business Delivery Manager
Paul Mountford, Executive Democratic Services Officer

Apologies
Councillor S Handley

24 DECLARATIONS OF INTEREST

Councillor S Pochin declared a non-pecuniary interest as a former Director of Engine of the North and the Skills and Growth Company.

Councillor L Smetham declared a non-pecuniary interest as a former Director of Orbitas.

25 MINUTES OF PREVIOUS MEETING

RESOLVED

That the minutes of the meeting of 14th November 2019 be approved as a correct record.

26 GROUP OF COMPANIES' TRADING RESERVE

The Committee gave further consideration to a draft report to the Portfolio Holder proposing the closure of the Trading Reserve and the transfer of monies to the Council's General Fund Balance. At its previous meeting, the Committee had deferred consideration of the matter and asked that the views of the ASDV chairmen and managing directors to be sought.

The Committee considered a briefing paper of the Managing Director of Ansa, Orbitas and TSS setting out the collective response from those companies. On the basis of the details contained in the briefing paper, the companies did not support the proposed closure of the Trading Reserve.

RESOLVED

That

1. having considered the response of Ansa, Orbitas and TSS to the proposed closure of the Trading Reserve, the Committee recommends that the recommendations in the report to the Portfolio Holder be amended as follows:

   (1) In determining the purpose and future of the Trading Reserve, the consultation feedback from the Companies be considered, particularly with regard to the Companies setting risk-assessed minimum levels of retained reserves, and also understanding the growth plans of Companies.

   (2) The Trading Reserve be reviewed in consultation with the ASDVs and the Shareholder Committee before any monies are transferred to the Council's General Fund Balance.

   (3) To facilitate any reduction of the Trading Reserve, the contractual agreements between the Council and each of its wholly-owned Companies be amended, as described in the report, and by consultation and agreement with the Companies as required by the Variation Procedure.

   (4) Companies be encouraged to utilise their own retained reserves in respect of funding initiatives that are aimed at developing their business.

   (5) In the event that development finance is required from the Council, companies may make a bid, via the Shareholder Committee, for support on an "invest to save" or "invest to grow" basis, for inclusion in the Medium Term Financial Strategy, as part of the Council's business planning and in-year review processes.

   (6) The existing approach to year-end profit/loss sharing also be considered as part of the ASDV Review and a further report be prepared in the event that any changes are proposed.

2. the Committee seeks assurances from the Portfolio Holder that there is an opportunity for future investment in ASDVs, and that there is no philosophical position on the part of the Council to remove ASDVs as an operating model.

27 **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED

That the press and public be excluded from the meeting during consideration of the following items pursuant to Section 100(A)4 of the Local Government Act 1972 on the grounds that they involve the likely disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972 and the public interest would not be served in publishing the information.

28 **ASDV BUSINESS PLAN REVIEWS - ORBITAS BEREAVEMENT SERVICES LTD**

The Committee considered two high level business cases submitted by Orbitas.

The following attended the meeting to present the business cases and answer members' questions:

Kevin Melling – Managing Director
Mark Darbyshire – Chief Operating Officer

At the conclusion of the presentation, the Chairman thanked the Orbitas representatives who then left the meeting. The Committee then considered the matter further.

The Committee noted a lack of financial information in relation to both business cases.

RESOLVED

That both business cases be supported in principle, subject to further detailed financial information and an assurance as to the accuracy of the figures quoted, and updated business cases be submitted to the Committee at its next meeting in January 2020.

(Note: Orbitas had since confirmed that the full cost of a proposed IT upgrade was as set out in that business case.)

29 **ASDV BUSINESS PLAN REVIEWS - CONCLUSIONS**

The Committee considered a report which provided an overview of the recent review of the 2020 business plans for Orbitas, TSS and ANSA with a view to the Committee providing strategic advice to the Portfolio Holder on whether or not to approve the business plans.

The Committee had received information on the risk analysis and future growth strategy of ANSA as requested at the previous meeting.

RESOLVED

That the Committee recommends to the Portfolio Holder

1. That the Orbitas business plan be approved, but that the Portfolio Holder be asked to note the following:
   (a) the Portfolio Holder is encouraged to ensure that future contractual arrangements are in place;
   (b) the corporate structure of the company should be reviewed;
   (c) details of future running costs should be sought; and
   (d) the company should share its business plan with service commissioners.

2. That the TSS business plan be approved, but that the Portfolio Holder be asked to note the following:
   (a) the Committee would like to see an expansion of FlexiLink and Special Educational Needs services; and
   (b) consideration should be given to a rolling contract for the future.

3. That the ANSA business plan be approved.

30 ASDV GOVERNANCE

The Committee considered the governance arrangements relating to the appointment of Directors to the Boards of ASDVs.

The Committee noted the advice of officers that under the Articles of Association and Shareholder Agreements, ASDVs were able to appoint their own Directors in addition to those appointed by the Council.

RESOLVED

That the Portfolio Holder be recommended to review the arrangements for the appointment of Directors to ASDV Boards and whether these should include the appointment of Directors who are not Borough Councillors.

31 NEW GOVERNANCE ARRANGEMENTS

The officers referred to the proposal for Cheshire East Council to move to a committee system form of governance and asked the Committee to consider how the shareholder function should be accommodated in any new arrangements.

RESOLVED

That the Committee recommends that under any new committee system, there continue to be a separate shareholder committee which would report and make recommendations to the relevant service committee.

The meeting commenced at 1.00 pm and concluded at 3.52 pm

Councillor S Carter (Chairman)

This page is intentionally left blank

Cheshire East Council

Working for a brighter future together

ASDV Shareholder Committee

Date of Meeting: 22 January 2020

Report Title: Group of Companies' External Audit Findings and Action Plan 2018/2019

Senior Officer: Alex Thompson, Director of Finance & Customer Services

1. Report Summary

1.1. The purpose of this report is to provide a summary of findings from the Group of Companies' external audit for 2018/19. It identifies the key issues that have been considered by Grant Thornton before issuing their opinion on the single entity Company financial statements. The individual company Audit Finding Reports are appended to this paper along with a summary in Appendix A.

2. Recommendation

2.1. That the Shareholder Committee receive and comment on the Audit Findings Reports for each Council-owned company for the year ending 31 March 2019.

3. Reasons for Recommendations

3.1. The appointed auditors are required to report to those charged with governance. The Audit Findings Reports present findings, conclusions and recommendations from audit work undertaken relating to the financial year 2018/19.

4. Other Options Considered

4.1. Not applicable.

5. Background

5.1. The auditors are responsible for giving an opinion on:

- Whether the accounts give a true and fair view of the financial position of the Company as at 31 March 2019;
- Whether they have been prepared properly in accordance with the United Kingdom Generally Accepted Accounting Practice; and
- Whether they have been prepared in accordance with the requirements of the Companies Act 2006.

5.2. The findings in relation to these areas are set out in each appended Audit Findings Reports – See Appendix B to G.

5.3. As the Company's appointed auditors, representatives of Grant Thornton attended the respective Company Board meetings in October/November 2019 to report their findings directly to the Company Directors. A summary of findings are provided in Appendix A.

5.4. In accordance with paragraph 8.3 of each Company Shareholder Agreement, each Company is required to report its Annual Accounts and Audit report at its AGM to which the Shareholder is invited. Ansa Environmental Services Ltd, Orbitas Bereavement Services Ltd and Transport Service Solutions Ltd each held an AGM in November 2019 to report and formally approve the Financial Statements with a Shareholder representative. As a consequence of the decision made by Cheshire East Council to bring services back in house relating to Engine of the North Ltd, The Skills and Growth Company Ltd and Civicance Ltd, no AGM has been undertaken in 2019. Normal practice has been for the Shareholders (CERF and CEBC) to declare a proxy vote at the AGM, which is a process recognised under Company Law and put in place by CEC Legal Services.

6. Implications of the Recommendations

6.1. Legal Implications

6.1.1. Section 475 of the Companies Act 2006 provides that a company's annual accounts for a financial year must be audited in accordance with this Part unless the company is;

a. exempt from audit under section 477 (small companies), section 479A (subsidiary companies)] or section 480 (dormant companies);

or

b. is exempt from the requirements of this Part under section 482 (non profit-making companies subject to public sector audit).

6.1.2 A company is not entitled to any such exemption unless its balance sheet contains a statement by the directors to that effect.

6.1.3 A company is not entitled to exemption under any of the provisions mentioned in subsection (1)(a) unless its balance sheet contains a statement by the directors to the effect that;

a. the members have not required the company to obtain an audit of its accounts for the year in question in accordance with section 476, and

b. the directors acknowledge their responsibilities for complying with the requirements of this Act with respect to accounting records and the preparation of accounts.

c. The statement required by subsection (2) or (3) must appear on the balance sheet above the signature required by section 414.

6.2. **Finance Implications**

6.2.1. As covered in the report

6.3. **Policy Implications**

6.3.1. There are no policy implications identified.

6.4. **Equality Implications**

6.4.1. There are no equality implications identified.

6.5. **Human Resources Implications**

6.5.1. There are no human resource implications identified.

6.6. **Risk Management Implications**

6.6.1. The audit has been conducted in accordance with International Standards of Auditing (UK) and means the auditors focus on audit risks that have been assessed as resulting in a higher risk of material misstatement.

6.7. **Rural Communities Implications**

6.7.1. There are no direct implications for rural communities.

6.8. **Implications for Children & Young People/Cared for Children**

6.8.1. There are no direct implications for children and young people.

6.9. **Public Health Implications**

6.9.1. There are no direct implications for public health.

6.10. **Climate Change Implications**

6.10.1. There are no direct implications for climate change.

7. Ward Members Affected

7.1. Not applicable.

8. Consultation & Engagement

8.1. As companies within the Cheshire East Group, then in accordance with Regulation 15(2) (b) of the Accounts and Audit Regulations 2015 the accounts were made available for inspection between 3 June 2019 to 12 July 2019.

9. Access to Information

9.1. The full Audit Finding Report for each company provided by Grant Thornton is appended to this covering report.

9.2. The Financial Statements for each company for 2018/19 are available on Companies House.

10. Contact Information

10.1. Any questions relating to this report should be directed to the following officer:

Name: Tracy Baldwin

Job Title: Group Finance Manager

Email: Tracy.baldwin@cheshireeast.gov.uk

Summary of Findings

Risks identified in our Audit Plan	Commentary
Improper Revenue recognition Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	**Auditor Commentary** ORBITAS/CIVICANCE/EOTN/SAGC: We have not identified any issues in respect of revenue as a result of testing performed. ANSA - We have not identified any issues in respect of revenue as a result of testing performed with the minor exception recorded below under Control Findings (Page 4: Sales Cut off). TSS – From the testing performed we identified a £100k management fee which had not been agreed with CEC at the financial year end. Accounting standards require it to be “highly probable” as at 31 March 2019 that the management fee would be received in order to recognise revenue. In the absence of an agreed position as at 31 March 2019, in our view the revenue was not “highly probable”. Therefore we have proposed this as an audit adjustment. We have also identified a control finding (see below) as there was no formal letter in place to agree the management fee with the council for 2018/19.
Management override of controls Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities	**Auditor commentary** - We did not note any instances of management override of controls during the course of the audit.
Disclosure of pension arrangements During the prior year audit of Cheshire East Council, a control deficiency was identified in respect of the fact that there is not a tripartite agreement in place between the company, the council and the administering authority of the pension scheme. A tripartite agreement would evidence which party is considered responsible by the pension scheme for any obligations to meet a shortfall in the plan assets to cover the post employment benefit obligations.	**Auditor commentary** - We understand that the CPF has now expressed willingness to put a tripartite agreement in place and has produced draft wording, with the aim that all parties will be signed up to a revised agreement by the end of 2019. - We have received confirmation from the Council’s legal team that, in their opinion, the deeds of variation provide clear acceptance by the Council that it has retained all the investment and actuarial risks for the pensions of the employees of the company.

	- We have also received confirmation from the pension fund that they consider the contribution arrangements for the companies to be fixed due to the compensation arrangement in place between the Council and the companies and they consider the Council has responsibility to adjust any variations in the companies actuarial contribution rates. - It would be optimal for a tripartite agreement to be in place, however on the basis of the evidence described above and the commitment of the Cheshire Pension Fund to put a tripartite agreement in place post year in order to regularise the arrangement (and as such this will not be an area of judgement in future periods), we are satisfied that managements treatment to account for the companies contributions to the scheme as if it were a defined contribution scheme is not materially incorrect. - We do however, continue to stress the importance of ensuring that a formal tripartite agreement is put in place as soon as possible and consistent with the prior year, we regard the fact that this has not been actioned sooner as a control observation.
Going concern – ANSA / Orbitas / TSS / Civicance Cheshire East Council's review into the future of its subsidiary companies is still ongoing. The existence of an ongoing review into the company's future creates uncertainty about its ability as a going concern. At the planning stage, we therefore identified going concern as an area of focus of our audit.	**Audit commentary** - The directors have assessed the suitability of the going concern assumption and in doing so have considered a period of not less than 12 months from the date of approval of the financial statements. - We have reviewed the companies 3 year budgets which shows that the companies have sufficient resources to continue in operation for the foreseeable future, assuming that no decisions to the contrary are made about its future by the council. - The companies have also received a letter of support from the council which states that no decisions have yet been taken as to the implementation of any changes to the company an that, any such changes be initiated as a consequence of the wider ongoing strategic review by CEC, they confirm that sufficient resources will be made available to allow the company to meet its liabilities as they fall due. The letter covers a period of 12 months from the date the company approves its financial statements for the year ended 31 March 2019.

	- On this basis, we concur with the management decision to prepare the financial statements on a going concern basis.
Going concern – EOTN /SAGC At the planning stage we identified going concern as an area of focus for our audit based on our awareness that Cheshire East Council was conducting an ongoing review into the future of its subsidiary companies, including Engine of the North and The Skills & Growth Company. From discussions with management during the audit, we understand that a decision has now been taken that the services provided by EOTN/SAGC will be moved back into the Council and that the companies will cease to trade.	**Auditor commentary** - As a decision has now been taken which will result in the closure of EOTN/SAGC, the directors have chosen to prepare the financial statements on a cessation basis. We concur with the judgement. - As a consequence our audit report therefore includes an emphasis of matter paragraph in respect of the basis of preparation. An emphasis of matter paragraph is not a qualification of the audit opinion, but draws attention to the fact that the financial statements have been prepared on a going concern basis.
Completeness of creditors At the planning stage we identified a risk that creditors could be understated or not recorded in the correct period.	**Auditor commentary** - We have not proposed any adjustments to creditors as a result of the work performed.
Completeness of employee remuneration At the planning stage we identified a risk that employee remuneration could be understated or not recorded in the correct period.	**Auditor commentary** - We performed a payroll proof in total by reconciling payroll reports to the year end financial statements. - We reviewed a sample of starters and leavers to ensure that employees are accurately recorded on the month end payroll reports. - We identified one control finding in Ansa during the course of this testing, which is documented further on page 4 . - We did not note any other issues as a result of the work performed.
Existence, accuracy and valuation of stock (Orbitas only) At the planning stage we identified a risk that stock quantities and prices may not be correctly recorded and that stock might not be valued at the lower of cost and net realisable value.	**Auditor commentary** - Whilst we were satisfied our procedures have limited the risk of a material misstatement in this area, management's controls over stock are weak and need strengthening. See control findings on page 4.

Internal Control Findings by Company

ANSA

Assessment	Issue & Risk	Recommendations
	Sales cut off From our review of sales transactions around the year end we identified one sales transaction which had been recorded post year end, however related to the year ended 31 March 2019.	- Our work suggests that this was a one-off issue and isolated to rental income. The amount involved was trivial and therefore we have not proposed any adjustment to the financial statements. - Prior to the commencement of the external audit, we recommend that management perform a review of sales transactions posted around the year end to determine whether any additional sales require accruing at the year end.
	Signed resignation letter For one of the payroll leavers we selected for testing during the year. HR were unable to provide a copy of a signed resignation letter for us to review.	- We were able to review alternative documentation for audit purposes, in the form of a screenshot of an Oracle notification. - We recommend that going forward, best practice would be to ensure all copies of signed resignation letters are retained.

ORBITAS

	Stock valuation could not be vouched to supporting documentation Due to the lack of supporting documentation obtained on the valuation of stock, we have obtained management representation on the value at year end for 2018/19.	- We recommend management obtain and review supporting documentation before any price changes are made to ensure stock valuation is accurate.
	Stock take procedures When attending the stock count, we were unable to re-perform a count from physical stock to year end listing. This was due to stock items not having a unique reference.	- We recommend that all stock items are allocated a unique stock reference and a sticker including this reference is attached to all stock items held on site. This will ensure the entity will be able to complete a stock count from stock held on site to stock included on the system.

Assessment:

Deficiency – risk of inconsequential misstatement.

Significant deficiency – risk of significant misstatement.

TSS

X	**Management fee contract** In the prior year we reported that there was no formal letter in place to agree the management fee with the council for 2017/18	- We understand that there was also no formal letter in place to agree the management fee with the council for 2018/19. - We recommend that a management fee letter is drawn up each year, to formalise the agreed income from the council.

Assessment:

X – Not yet addressed

Y – Action completed

This page is intentionally left blank

The Audit Findings for Ansa Environmental Services Limited

Year ended 31 March 2019

Michael Lowe
Associate Director
T 07917 200 030
E michael.p.lowe@uk.gt.com

Clare Hunter
Audit Manager
T 0121 232 5307
E clare.hunter@uk.gt.com

Dan Poxon
Audit In-charge
T 0121 232 5217
E daniel.s.poxon@uk.gt.com

Grant Thornton

Private and Confidential

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

T +44 (0)161 953 6900
www.grantthornton.co.uk

The Directors
Ansa Environmental Services Limited
Cledford Lane
Middlewich
Cheshire
CW10 0JR

Dear Sirs

Audit Findings for Ansa Environmental Services Limited for the year ended 31 March 2019

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

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

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

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

Michael Lowe

For Grant Thornton UK LLP

Chartered Accountants
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

Contents

Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

- Going concern and subsequent events reviews to be updated to the point of approval of the financial statements
- Signed letter of representation (to be provided by GT at the point of signing the financial statements)

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified

There have been no changes to our audit approach as previously communicated in our Audit Plan.

Significant findings

Risks identified in our Audit Plan	Commentary
1 **Improper revenue recognition** • Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	**Auditor commentary** • We have reviewed and tested the revenue recognition policies for appropriateness and consistency. The revenue recognition policy for each of the revenue streams has been documented and ensured to be applied consistently across the year. • During the year, the company has adopted IFRS 15 'Revenue from contracts with customers'. Management have performed an impact assessment and concluded that there are no material differences to the previous revenue recognition policies. This is mainly as a result of contracts completing as at 31 March each year and all performance obligations having been satisfied. We concur with this judgement. • We have analytically reviewed actual revenue against budget for each significant revenue stream and corroborated any significant variances observed. • For the management fee from Cheshire East Council, we have compared the actual amount received to the amount agreed in the signed management fee letter at the beginning of the year. Variations from the original fee agreed have been agreed to supporting documentation. • For other material revenue streams, we have selected a sample of transactions and agreed to evidence that the service had been provided, to ensure that the company was entitled to recognise the revenue. • We have performed cut-off testing for revenue by reviewing sales transactions around the year-end to check that they were recorded in the correct period. • We have not identified any issues in respect of revenue as a result of testing performed other than the control finding reported on page 11.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK) 315)

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550)

Significant findings (continued)

Risks identified in our Audit Plan	Commentary
2 **Management override of controls** • Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities	**Auditor commentary** • We have performed a review of all estimates, judgements and decisions made by management through discussions around the control environment. We have followed up on prior year control points raised over the following pages. • We have performed work around journal entries during the year including a review of large and unusual transactions. • We did not note any instances of management override of controls during the course of the audit.

Financial statement level risks

Risks identified in our Audit Plan	Commentary
Disclosure of pension arrangements • The company has a deed of variation to its services contract with Cheshire East Council, under which Ansa is required to pay a fixed percentage of the pensionable pay of eligible employees throughout the term of its contract. • This is considered by management to be a pass-through arrangement, which enables Ansa to account for the contributions it pays into the LGPS as if they were contributions into a defined contribution scheme. • This means that Ansa does not account for its share of the pension scheme assets and liabilities in its balance sheet and is not required to recognise actuarial gains or losses in its income statement. • During the prior year audit of Cheshire East Council, a control deficiency was identified in respect of the fact that there is not a tripartite agreement in place between the company, the council and the administering authority of the pension scheme. • A tripartite agreement would evidence which party is considered responsible by the pension scheme for any obligations to meet a shortfall in the plan assets to cover the post employment benefit obligations.	**Auditor commentary** • During the audit we discussed with management whether progress had been made during the year in drawing up a tripartite agreement. • We understand that this has not happened to date, because the Cheshire Pension Fund was initially of the opinion that a tripartite agreement was not required. This was on the basis that the pension fund was aware of the pass-through arrangements from the start and felt the nature of the arrangement was already adequately documented in the Deed of Guarantee and Deed of Variation of Contract. • We have sought further technical advice in this area, and also reviewed current market practice of similar arrangements between Councils and subsidiaries, and we remain of the view that a tripartite agreement is still required, because the existing agreements do not fully release Ansa from its obligations to the pension fund. • We understand that the Cheshire Pension Fund has now expressed willingness to put a tripartite agreement in place and has produced draft wording, with the aim that all parties will be signed up to a revised agreement by the end of 2019. • We have received confirmation from the Council's legal team that, in their opinion, the deeds of variation provide clear acceptance by the Council that it has retained all the investment and actuarial risks for the pensions of the employees of the company. • We have also received confirmation from the pension fund that they consider the contribution arrangements for the company to be fixed due to the compensation arrangement in place between the Council and the company, and that they consider the Council has responsibility to adjust any variations in the company's actuarial contribution rates. • It would be optimal for a tripartite agreement to be in place, however on the basis of the evidence described above and the commitment of the Cheshire Pension Fund to put a tripartite agreement in place post year in order to regularise the arrangement (and as such this will not be an area of judgement in future periods), we are satisfied that management's treatment to account for the company's contributions to the scheme as if it were a defined contribution scheme is not materially incorrect. • We do, however, continue to stress the importance of ensuring that a formal tripartite agreement is put in place as soon as possible and consistent with the prior year, we regard the fact this has not been actioned sooner as a control observation.

Page 25

Financial statement level risks (continued)

Risks identified in our Audit Plan	Commentary
2 **Going concern** • Cheshire East Council's review into the future of its subsidiary companies is still ongoing. The existence of an ongoing review into the company's future creates uncertainty about its ability to continue as a going concern. At the planning stage, we therefore identified going concern as an area of focus for our audit.	**Auditor commentary** • The directors are required to assess the suitability of the going concern assumption in their preparation of the financial statements and include suitable disclosures in respect of going concern. • In considering the appropriateness of adopting the going concern basis of preparation for the financial statements, the directors are required to consider a period of not less than twelve months from the date of approval of the financial statements. • We have reviewed Ansa's 3-year budget, which shows that the company has sufficient resources to continue in operation for the foreseeable future, assuming that no decisions to the contrary are made about its future by the council. • The company has received a letter of support from the council which states that no decisions have as yet been taken as to the implementation of any changes to Ansa and that, should any such changes be initiated as a consequence of the wider ongoing strategic review by Cheshire East Council, they confirm that sufficient resources will be made available to allow the company to meet its liabilities as they fall due. The letter covers a period of 12 months from the date the company approves its financial statements for the year ended 31 March 2019. • On this basis, we concur with management's decision to prepare the financial statements on a going concern basis. • We have reviewed the financial statement disclosures and are satisfied that these are adequate.

Other significant classes of transactions findings

	Issue	Commentary
1	**Completeness of creditors** • At the planning stage we identified a risk that creditors could be understated or not recorded in the correct period.	**Auditor commentary** • We have reviewed significant accrual balances as at the year-end and understood the reason for any significant movements from expectations. • We reviewed open purchase orders to confirm that an appropriate liability had been accrued for where required, as well as reviewing post year end bank statements and purchase invoice journals to determine whether there were any additional liabilities which should have been accrued for at the year end. • We have not proposed any adjustments to creditors as a result of the work performed.
2	**Completeness of employee remuneration** • At the planning stage we identified a risk that employee remuneration could be understated or not recorded in the correct period	**Auditor commentary** • We performed a payroll proof in total by reconciling the payroll reports to the year end financial statements. • We reviewed a sample of starters and leavers to ensure that employees are accurately recorded on the month end payroll reports. We identified one control finding during the course of this testing, which is documented further on page 11. • We did not note any other issues as a result of the work performed.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK) 315)

Other communication requirements

	Issue	Commentary
1	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance.
4	**Written representations**	• Standard representations will be requested from management in respect of the significant assumptions used in making accounting estimates and ensuring that the financial statements are free of material error.
5	**Confirmation requests from third parties**	• We have obtained written confirmation of the company's year end bank balance with Barclays and have not noted any issues.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Misstatements**	• No misstatements have been identified during the audit.
8	**IFRS 16 'Leases'**	• IFRS 16 'Leases' is effective for annual periods on or after 1 January 2019 and provides new guidance for the accounting of leases. It is expected that the implementation of this standard will result in most leases being recognised on the balance sheet. This may have a significant impact on the financial statements as rental costs will be replaced by depreciation and an interest charge. • If not already done so then management will need to undertake and assessment of the expected impact on the financial records as this will be effective in the FY20 financial statements.

Internal controls

	Assessment	Issue and risk	Recommendations
1	●	**Sales cut off** • From our review of sales transactions around the year end we identified one sales transaction which had been recorded post year end, however related to the year ended 31 March 2019.	• Our work suggests that this was a one-off issue and isolated to rental income. The amount involved was trivial and therefore we have not proposed any adjustment to the financial statements. • Prior to the commencement of the external audit, we recommend that management perform a review of sales transactions posted around the year end to determine whether any additional sales require accruing at the year end.
2	●	**Signed resignation letter** • For one of the payroll leavers we selected for testing during the year, HR were unable to provide a copy of a signed resignation letter for us to review.	• We were able to review alternative documentation for audit purposes, in the form of a screenshot of an Oracle notification. • We recommend that going forward, best practice would be to ensure all copies of signed resignation letters are retained.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK) 265)

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Independence, ethics and fees

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.
- The table below sets out the total fees for audit services charged from the beginning of the financial year to September 2019. We did not provide any non-audit services to the company during this period.

	Fees £	Threat identified	Safeguards
Audit of company for the year ended 31 March 2019	**13,100**	N/A	N/A

- No non-audit services have been provided in respect of the year ended 31 March 2019.
- None of the above services were provided on a contingent fee basis
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to the company. The table summarises all services which were identified

This covers all services provided by us and our network to the company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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 including significant risks and Key Audit Matters	•	
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	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Grant Thornton

© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

The Audit Findings for Orbitas Bereavement Services Limited

Year ended 31 March 2019

Michael Lowe
Associate Director
T 07917 200 030
E michael.p.lowe@uk.gt.com

Clare Hunter
Audit Manager
T 0121 232 5307
E clare.hunter@uk.gt.com

Dan Poxon
Audit In-charge
T 0121 232 5217
E daniel.s.poxon@uk.gt.com

Private and Confidential

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

T +44 (0)161 953 6900
www.grantthornton.co.uk

The Directors
Orbitas Bereavement Services Limited
The Cemetery Office
Market Close
Crewe
Cheshire
CW1 2NA

Dear Sirs

Audit Findings for Orbitas Bereavement Services Limited for the year ended 31 March 2019

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

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

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

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

Yours faithfully,

Michael Lowe

For Grant Thornton UK LLP

Chartered Accountants
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

Contents

Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

- Going concern and subsequent events reviews to be updated to the point of approval of the financial statements
- Signed letter of representation (to be provided by GT at the point of signing the financial statements)

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified

There have been no changes to our audit approach as previously communicated in our Audit Plan.

Significant findings

Significant Risks identified in our Audit Plan	Commentary
1 **Improper revenue recognition** • Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	**Auditor commentary** • We have reviewed and tested the revenue recognition policies for appropriateness and consistency. The revenue recognition policy for each of the revenue streams has been documented and ensured to be applied consistently across the year. • During the year, the company has adopted IFRS 15 'Revenue from contracts with customers'. Management have performed an impact assessment and concluded that there are no material differences to the previous revenue recognition policies. This is mainly as a result of contracts completing as at 31 March each year and all performance obligations having been satisfied. We concur with this judgement. • We have analytically reviewed actual revenue against budget for each significant revenue stream and corroborated any significant variances observed. • For the management fee from Cheshire East Council, we have compared the actual amount received to the amount agreed in the signed management fee letter at the beginning of the year. Variations from the original fee agreed have been agreed to supporting documentation. • For other material revenue streams, we have selected a sample of transactions and agreed to evidence that the service had been provided, to ensure that the company was entitled to recognise the revenue. • We have performed cut-off testing for revenue by reviewing sales transactions around the year-end to check that they were recorded in the correct period. **Conclusion** • We have not identified any issues in respect of revenue as a result of testing performed.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK) 315)

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550)

Significant findings (continued)

Significant Risks identified in our Audit Plan	Commentary
2 **Management override of controls** • Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities	**Auditor commentary** • We have performed a review of all estimates, judgements and decisions made by management through discussions around the control environment. We have followed up on prior year control points raised over the following pages. • We have performed work around journal entries during the year including a review of large and unusual transactions. **Conclusion** We did not note any instances of management override of controls during the course of the audit.

Financial statement level risks

Risks identified in our Audit Plan	Commentary
1 Disclosure of pension arrangements • The company has a deed of variation to its agency agreement with Cheshire East Council, under which Orbitas is required to pay a fixed percentage of the pensionable pay of eligible employees throughout the term of its contract. • This is considered by management to be a pass-through arrangement, which enables Orbitas to account for the contributions it pays into the LGPS as if they were contributions into a defined contribution scheme. • This means that Orbitas does not account for its share of the pension scheme assets and liabilities in its balance sheet and is not required to recognise actuarial gains or losses in its income statement. • During the prior year audit of Cheshire East Council, a control deficiency was identified in respect of the fact that there is not a tripartite agreement in place between the company, the council and the administering authority of the pension scheme. • A tripartite agreement would evidence which party is considered responsible by the pension scheme for any obligations to meet a shortfall in the plan assets to cover the post employment benefit obligations.	**Auditor commentary** • During the audit we discussed with management whether progress had been made during the year in drawing up a tripartite agreement. • We understand that this has not happened to date, because the Cheshire Pension Fund was initially of the opinion that a tripartite agreement was not required. This was on the basis that the pension fund was aware of the pass-through arrangements from the start and felt the nature of the arrangement was already adequately documented in the Deed of Guarantee and Deed of Variation of Contract. • We have sought further technical advice in this area, and also reviewed current market practice of similar arrangements between Councils and subsidiaries, and we remain of the view that a tripartite agreement is still required, because the existing agreements do not fully release Orbitas from its obligations to the pension fund. • We understand that the Cheshire Pension Fund has now expressed willingness to put a tripartite agreement in place and has produced draft wording, with the aim that all parties will be signed up to a revised agreement by the end of 2019. • We have received confirmation from the Council's legal team that, in their opinion, the deeds of variation provide clear acceptance by the Council that it has retained all the investment and actuarial risks for the pensions of the employees of the company. • We have also received confirmation from the pension fund that they consider the contribution arrangements for the company to be fixed due to the compensation arrangement in place between the Council and the company, and that they consider the Council has responsibility to adjust any variations in the company's actuarial contribution rates. • It would be optimal for a tripartite agreement to be in place, however on the basis of the evidence described above and the commitment of the Cheshire Pension Fund to put a tripartite agreement in place post year in order to regularise the arrangement (and as such this will not be an area of judgement in future periods), we are satisfied that management's treatment to account for the company's contributions to the scheme as if it were a defined contribution scheme is not materially incorrect. • We do, however, continue to stress the importance of ensuring that a formal tripartite agreement is put in place as soon as possible and consistent with the prior year, we regard the fact this has not been actioned sooner as a control observation.

Page 39

Financial statement level risks (continued)

Risks identified in our Audit Plan	Commentary
2 **Going concern** • Cheshire East Council's review into the future of its subsidiary companies is still ongoing. The existence of an ongoing review into the company's future creates uncertainty about its ability to continue as a going concern. At the planning stage, we therefore identified going concern as an area of focus for our audit.	**Auditor commentary** • The directors are required to assess the suitability of the going concern assumption in their preparation of the financial statements and include suitable disclosures in respect of going concern. • In considering the appropriateness of adopting the going concern basis of preparation for the financial statements, the directors are required to consider a period of not less than twelve months from the date of approval of the financial statements. • We have reviewed Orbitas' 3-year budget, which shows that the company has sufficient resources to continue in operation for the foreseeable future, assuming that no decisions to the contrary are made about its future by the council. • The company has received a letter of support from the council which states that no decisions have as yet been taken as to the implementation of any changes to Orbitas and that, should any such changes be initiated as a consequence of the wider ongoing strategic review by Cheshire East Council, they confirm that sufficient resources will be made available to allow the company to meet its liabilities as they fall due. The letter covers a period of 12 months from the date the company approves its financial statements for the year ended 31 March 2019. • On this basis, we concur with management's decision to prepare the financial statements on a going concern basis. • We have reviewed the financial statement disclosures and are satisfied that these are adequate.

Other significant classes of transactions findings

	Issue	Commentary
1	**Completeness of creditors** • At the planning stage we identified a risk that creditors could be understated or not recorded in the correct period.	**Auditor commentary** • We have reviewed significant accrual balances as at the year-end and understood the reason for any significant movements from expectations. • We reviewed open purchase orders to confirm that an appropriate liability had been accrued for where required, as well as reviewing post year end bank statements and purchase invoice journals to determine whether there were any additional liabilities which should have been accrued for at the year end. **Conclusion** • We have not proposed any adjustments to creditors as a result of the work performed.
2	**Completeness of employee remuneration** • At the planning stage we identified a risk that employee remuneration could be understated or not recorded in the correct period	**Auditor commentary** • We performed a payroll proof in total by reconciling the payroll reports to the year end financial statements. • We reviewed a sample of starters and leavers to ensure that employees are accurately recorded on the month end payroll reports. **Conclusion** • We did not note any other issues as a result of the work performed.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK) 315)

Other significant classes of transactions findings (continued)

	Issue	Commentary
3	**Existence, accuracy and valuation of stock** • At the planning stage we identified a risk that stock quantities and prices may not be correctly recorded and that stock might not be valued at the lower of cost and net realisable value.	**Auditor commentary** • We attended the year end inventory count to observe the operating effectiveness of the stocktaking procedures. • A sample of year end stock items were reviewed to determine whether they are being held at the lower of cost and net realisable value by reference to the selling price achieved subsequent to the year end. • A sample of stock items were verified to supporting documentation to assess whether the items are being held at their correct value. **Conclusion** • Whilst we are satisfied our procedures have limited the risk of a material misstatement in this area, management's controls over stock are weak and need strengthening (see page 12).

Other communication requirements

	Issue	Commentary
1	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance.
4	**Written representations**	• Standard representations will be requested from management in respect of the significant assumptions used in making accounting estimates and ensuring that the financial statements are free of material error. A specific representation will be requested in respect of stock valuation.
5	**Confirmation requests from third parties**	• We have obtained written confirmation of the company's year end bank balance with Barclays and have not noted any issues.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Misstatements**	• Please see the misstatements identified on page 13. No misstatements have been adjusted.
8	**IFRS 16 'Leases'**	• IFRS 16 'Leases' is effective for annual periods on or after 1 January 2019 and provides new guidance for the accounting of leases. It is expected that the implementation of this standard will result in most leases being recognised on the balance sheet. This may have a significant impact on the financial statements as rental costs will be replaced by depreciation and an interest charge. • If not already done so then management will need to undertake and assessment of the expected impact on the financial records as this will be effective in the FY20 financial statements.

Page 43

Internal controls

	Assessment	Issue and risk	Recommendations
1	●	**Stock valuation could not be vouched to supporting documentation** • Due to the lack of supporting documentation obtained on the valuation of stock, we have obtained management representation on the value at year end for 2018/19.	• We recommend management obtain and review supporting documentation before any price changes are made to ensure stock valuation is accurate.
2	●	**Stock take procedures** • When attending the stock count, we were unable to reperform a count from physical stock to the year end listing. This was due to stock items not having a unique reference.	• We recommend that all stock items are allocated a unique stock reference and a sticker including this reference is attached to all stock items held on site. This will ensure the entity will be able to complete a stock count from stock held on site, to stock included on the system.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK) 265)

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Misstatements - unadjusted

		£000	£000	£000	£000	£000	
		Profit and loss account		Balance sheet			
Journal reference	Detail	Debit	Credit	Debit	Credit	Profit effect	Reason for not adjusting
	Profit/(Loss) per final accounts						
						(12)	
1)	Cost of sales	3				(3)	
	Stock				(3)		
	Being adjustment for obsolete stock items held on the stock listing						Immaterial
	Potential Profit/(Loss)					**(15)**	

Independence, ethics and fees

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.
- The table below sets out the total fees for audit services charged from the beginning of the financial year to September 2019. We did not provide any non-audit services to the company during this period.

	Fees £	Threat identified	Safeguards
Audit of company for the year ended 31 March 2019	**7,000**	N/A	N/A

- No non-audit services have been provided in respect of the year ended 31 March 2019.
- None of the above services were provided on a contingent fee basis.
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to the company. The table summarises all services which were identified.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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 including significant risks and Key Audit Matters	•	
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	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to **ensure** our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

The Audit Findings for Transport Service Solutions Limited

Year ended 31 March 2019

Michael Lowe
Associate Director
T 07917 200 030
E michael.p.lowe@uk.gt.com

Clare Hunter
Audit Manager
T 0121 232 5307
E clare.hunter@uk.gt.com

Dan Poxon
Audit In-charge
T 0121 232 5217
E daniel.s.poxon@uk.gt.com

Grant Thornton

Private and Confidential

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

T +44 (0)161 953 6900
www.grantthornton.co.uk

The Directors
Transport Service Solutions Limited
Environmental Hub
Cledford Lane
Middlewich
Cheshire
CW10 0JR

Dear Sirs

Audit Findings for Transport Service Solutions Limited for the year ended 31 March 2019

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

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

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

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

Yours faithfully,

Michael Lowe

For Grant Thornton UK LLP

Chartered Accountants
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

Contents

Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

- Signed letter of representation (to be provided by GT at the point of signing the financial statements)
- Going concern and subsequent events reviews to be updated to the point of approval of the financial statements

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified

There have been no changes to our audit approach as previously communicated in our Audit Plan.

Significant findings

Significant Risks identified in our Audit Plan	Commentary
1 **Improper revenue recognition** • Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	**Auditor commentary** • We have reviewed and tested the revenue recognition policies for appropriateness and consistency. The revenue recognition policy for each of the revenue streams has been documented and ensured to be applied consistently across the year. • During the year, the company has adopted IFRS 15 'Revenue from contracts with customers'. Management have performed an impact assessment and concluded that there are no material differences to the previous revenue recognition policies. This is mainly as a result of contracts completing as at 31 March each year and all performance obligations having been satisfied. We concur with this judgement. • We have analytically reviewed actual revenue against budget for each significant revenue stream and corroborated any significant variances observed. • For the management fee from Cheshire East Council, we have compared the actual amount received to the amount agreed at the beginning of the year. Variations from the original fee agreed have been agreed to supporting documentation. • For other material revenue streams, we have selected a sample of transactions and agreed to evidence that the service had been provided, to ensure that the company was entitled to recognise the revenue. • We have performed cut-off testing for revenue by reviewing sales transactions around the year-end to check that they were recorded in the correct period. **Conclusion** • From the testing performed we identified a £100k management fee, which had not been agreed with CEC at the financial year end. Accounting standards require it to be "highly probable" as at 31 March 2019 that the management fee would be received in order to recognise revenue. In the absence of an agreed position as at 31 March 2019, in our view the revenue was not "highly probable". Therefore, we have proposed this as an audit adjustment on page 12. We have also identified a control finding on page 11, as there was no formal letter in place to agree the management fee with the council for 2018/19.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK) 315)

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550)

Page 53

Significant findings (continued)

Significant Risks identified in our Audit Plan	Commentary
2 **Management override of controls** • Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities	**Auditor commentary** • We have performed a review of all estimates, judgements and decisions made by management through discussions around the control environment. We have followed up on prior year control points raised over the following pages. • We have performed work around journal entries during the year including a review of large and unusual transactions. **Conclusion** • We did not note any instances of management override of controls during the course of the audit.

Financial statement level risk

Risks identified in our Audit Plan	Commentary
1 Disclosure of pension arrangements • The company has a deed of variation to its agency agreement with Cheshire East Council, under which TSS is required to pay a fixed percentage of the pensionable pay of eligible employees throughout the term of its contract. • This is considered by management to be a pass-through arrangement, which enables TSS to account for the contributions it pays into the LGPS as if they were contributions into a defined contribution scheme. • This means that TSS does not account for its share of the pension scheme assets and liabilities in its balance sheet and is not required to recognise actuarial gains or losses in its income statement. • During the prior year audit of Cheshire East Council, a control deficiency was identified in respect of the fact that there is not a tripartite agreement in place between the company, the council and the administering authority of the pension scheme. • A tripartite agreement would evidence which party is considered responsible by the pension scheme for any obligations to meet a shortfall in the plan assets to cover the post employment benefit obligations.	**Auditor commentary** • During the audit we discussed with management whether progress had been made during the year in drawing up a tripartite agreement. • We understand that this has not happened to date, because the Cheshire Pension Fund was initially of the opinion that a tripartite agreement was not required. This was on the basis that the pension fund was aware of the pass-through arrangements from the start and felt the nature of the arrangement was already adequately documented in the Deed of Guarantee and Deed of Variation of Contract. • We have sought further technical advice in this area, and also reviewed current market practice of similar arrangements between Councils and subsidiaries, and we remain of the view that a tripartite agreement is still required, because the existing agreements do not fully release TSS from its obligations to the pension fund. • We understand that the Cheshire Pension Fund has now expressed willingness to put a tripartite agreement in place and has produced draft wording, with the aim that all parties will be signed up to a revised agreement by the end of 2019. • We have received confirmation from the Council's legal team that, in their opinion, the deeds of variation provide clear acceptance by the Council that it has retained all the investment and actuarial risks for the pensions of the employees of the company. • We have also received confirmation from the pension fund that they consider the contribution arrangements for the company to be fixed due to the compensation arrangement in place between the Council and the company, and that they consider the Council has responsibility to adjust any variations in the company's actuarial contribution rates. • It would be optimal for a tripartite agreement to be in place, however on the basis of the evidence described above and the commitment of the Cheshire Pension Fund to put a tripartite agreement in place post year in order to regularise the arrangement (and as such this will not be an area of judgement in future periods), we are satisfied that management's treatment to account for the company's contributions to the scheme as if it were a defined contribution scheme is not materially incorrect. • We do, however, continue to stress the importance of ensuring that a formal tripartite agreement is put in place as soon as possible and consistent with the prior year, we regard the fact this has not been actioned sooner as a control observation.

Financial statement level risk (continued)

Risks identified in our Audit Plan	Commentary
2 **Going concern** • Cheshire East Council's review into the future of its subsidiary companies is still ongoing. The existence of an ongoing review into the company's future creates uncertainty about its ability to continue as a going concern. At the planning stage, we therefore identified going concern as an area of focus for our audit.	**Auditor commentary** • The directors are required to assess the suitability of the going concern assumption in their preparation of the financial statements and include suitable disclosures in respect of going concern. • In considering the appropriateness of adopting the going concern basis of preparation for the financial statements, the directors are required to consider a period of not less than twelve months from the date of approval of the financial statements. • We have reviewed TSS' annual budget, which shows that the company has sufficient resources to continue in operation for the foreseeable future, assuming that no decisions to the contrary are made about its future by the council. Management do not complete a rolling 3 year budget, therefore we have gained assurance of the company's ability to continue as a going concern from the letter of support provided. • The company has received a letter of support from the council which states that no decisions have as yet been taken as to the implementation of any changes to TSS and that, should any such changes be initiated as a consequence of the wider ongoing strategic review by Cheshire East Council, they confirm that sufficient resources will be made available to allow the company to meet its liabilities as they fall due. The letter covers a period of 12 months from the date the company approves its financial statements for the year ended 31 March 2019. • On this basis, we concur with management's decision to prepare the financial statements on a going concern basis. • We have reviewed the financial statement disclosures and are satisfied that these are adequate.

Other significant classes of transactions findings

	Other Risks identified in our Audit Plan	Commentary
1	**Completeness of creditors** • At the planning stage we identified a risk that creditors could be understated or not recorded in the correct period.	**Auditor commentary** • We have reviewed significant accrual balances as at the year end and understood the reason for any significant movements from expectations. • We have reviewed open purchase orders to confirm that an appropriate liability has been accrued for where required, as well as reviewing post year end bank statements and purchase invoice journals to determine whether there were any additional liabilities which should have been accrued for at the year end. **Conclusion** • We have not proposed any adjustments to creditors as a result of the work performed.
2	**Completeness of employee remuneration** • At the planning stage we identified a risk that employee remuneration could be understated or not recorded in the correct period.	**Auditor commentary** • We have reconciled payroll records to total payroll costs in the TB with no significant differences noted. • We have performed analytical procedures of the payroll expenses, taking into account the number of employees in the year and any pay increases. • We have reviewed a sample of starters and leavers during the year and ensured that correct documentation is available. **Conclusion** • We have not identified any issues as a result of the work performed.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK) 315)

Other communication requirements

	Issue	Commentary
1	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance.
4	**Written representations**	• Standard representations will be requested from management in respect of the significant assumptions used in making accounting estimates and ensuring that the financial statements are free of material error.
5	**Confirmation requests from third parties**	• We have obtained written confirmation of the company's year end bank balance with Barclays and have not noted any issues.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Misstatements**	• Adjusted misstatements are shown on page 12. No misstatements remain unadjusted.
8	**IFRS 16 'Leases'**	• IFRS 16 'Leases' is effective for annual periods on or after 1 January 2019 and provides new guidance for the accounting of leases. It is expected that the implementation of this standard will result in most leases being recognised on the balance sheet. This may have a significant impact on the financial statements as rental costs will be replaced by depreciation and an interest charge. • If not already done so then management will need to undertake and assessment of the expected impact on the financial records as this will be effective in the FY20 financial statements.

© 2019 Grant Thornton UK LLP

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	**Management fee contract** • In the prior year we reported that there was no formal letter in place to agree the management fee with the council for 2017/18.	• We understand that there was also no formal letter in place to agree the management fee with the council for 2018/19. • We recommend that a management fee letter is drawn up each year, to formalise the agreed income from the council.

Assessment
✓ Action completed
X Not yet addressed

Page 59

Misstatements - adjusted

		£000	£000	£000	£000	£000
		Profit and loss account		Balance sheet		
Journal reference	Detail	Debit	Credit	Debit	Credit	Profit effect
	Profit/(Loss) per draft accounts					**111**
1)	Dr Management fee revenue	25				(25)
	Dr Amounts owed to group undertakings			75		
	Cr Amounts owed by group undertakings				(100)	
	Being adjustment for management fee not agreed with council pre year end					
	Profit/(Loss) per final accounts					**86**

Page 60

Independence, ethics and fees

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.
- The table below sets out the total fees for audit and non-audit services charged from the beginning of the financial year to September 2019, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

	Fees £	Threat identified	Safeguards
Audit of company for the year ended 31 March 2019	11,200	N/A	N/A

- No none-audit services have been provided in respect of the year ended 31 March 2019.
- None of the above services were provided on a contingent fee basis.
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to the company. The table summarises all non-audit services which were identified.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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 including significant risks and Key Audit Matters	•	
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	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to **ensure** our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

This page is intentionally left blank

The Audit Findings for Civicance Limited

Year ended 31 March 2019

Michael Lowe
Associate Director
T 07917 200 030
E michael.p.lowe@uk.gt.com

Clare Hunter
Audit Manager
T 0121 232 5307
E clare.hunter@uk.gt.com

Dan Poxon
Audit In-charge
T 0121 232 5217
E daniel.s.poxon@uk.gt.com

Grant Thornton

Private and Confidential

Grant Thornton UK LLP
The Colmore Building
20 Colmore Circus
Birmingham
B4 6AT

T 0121 212 4000
www.grantthornton.co.uk

The Directors
Civicance Limited
Westfields
Middlewich Road
Cheshire
CW11 1HZ

Dear Sirs

Audit Findings for Civicance Limited for the year ended 31 March 2019

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

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

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

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

Yours faithfully,

Michael Lowe

For Grant Thornton UK LLP

Chartered Accountants
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

Contents

Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

- Signed letter of representation (to be provided by GT at the point of signing the financial statements)
- Going concern and subsequent events reviews to be updated to the point of approval of the financial statements

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified

There have been no changes to our audit approach as previously communicated in our Audit Plan.

Significant findings

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** • Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	**Auditor commentary** • We have reviewed and tested the revenue recognition policies for appropriateness and consistency. The revenue recognition policy for each of the revenue streams has been documented and ensured to be applied consistently across the year. • During the year, the company has adopted IFRS 15 'Revenue from contracts with customers'. Management have performed an impact assessment and concluded that there are no material differences to the previous revenue recognition policies. This is mainly as a result of contracts completing as at 31 March each year and all performance obligations having been satisfied. We concur with this judgement. • We have analytically reviewed actual revenue against budget for each significant revenue stream and corroborated any significant variances observed. • For the management fee from Cheshire East Council, we have compared the actual amount received to the amount agreed at the beginning of the year. Variations from the original fee agreed have been agreed to supporting documentation. • For other material revenue streams, we have selected a sample of transactions and agreed to evidence that the service had been provided, to ensure that the company was entitled to recognise the revenue. • We have performed cut-off testing for revenue by reviewing sales transactions around the year-end to check that they were recorded in the correct period. **Conclusion** • We have not identified any issues in respect of revenue as a result of testing performed.

Page 69

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK) 315)

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550)

Significant findings (continued)

	Risks identified in our Audit Plan	Commentary
2	**Management override of controls** • Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities	**Auditor commentary** • We have performed a review of all estimates, judgements and decisions made by management through discussions around the control environment. We have followed up on prior year control points raised over the following pages. • We have performed work around journal entries during the year including a review of large and unusual transactions. **Conclusion** • We did not note any instances of management override of controls during the course of the audit.

Financial statement level risks

Risks identified in our Audit Plan	Commentary
1 **Disclosure of pension arrangements** • The company has a deed of variation to its agency agreement with Cheshire East Council, under which Civicance is required to pay a fixed percentage of the pensionable pay of eligible employees throughout the term of its contract. • This is considered by management to be a pass-through arrangement, which enables Civicance to account for the contributions it pays into the LGPS as if they were contributions into a defined contribution scheme. • This means that Civicance does not account for its share of the pension scheme assets and liabilities in its balance sheet and is not required to recognise actuarial gains or losses in its income statement. • During the prior year audit of Cheshire East Council, a control deficiency was identified in respect of the fact that there is not a tripartite agreement in place between the company, the council and the administering authority o the pension scheme. • A tripartite agreement would evidence which party is considered responsible by the pension scheme for any obligations to meet a shortfall in the plan assets to cover the post employment benefit obligations.	**Auditor commentary** • During the audit we discussed with management whether progress had been made during the year in drawing up a tripartite agreement. • We understand that this has not happened to date, because the Cheshire Pension Fund was initially of the opinion that a tripartite agreement was not required. This was on the basis that the pension fund was aware of the pass-through arrangements from the start and felt the nature of the arrangement was already adequately documented in the Deed of Guarantee and Deed of Variation of Contract. • We have sought further technical advice in this area, and also reviewed current market practice of similar arrangements between Councils and subsidiaries, and we remain of the view that a tripartite agreement is still required, because the existing agreements do not fully release Civicance from its obligations to the pension fund. • We understand that the Cheshire Pension Fund has now expressed willingness to put a tripartite agreement in place and has produced draft wording, with the aim that all parties will be signed up to a revised agreement by the end of 2019. • We have received confirmation from the Council's legal team that, in their opinion, the deeds of variation provide clear acceptance by the Council that it has retained all the investment and actuarial risks for the pensions of the employees of the company. • We have also received confirmation from the pension fund that they consider the contribution arrangements for the company to be fixed due to the compensation arrangement in place between the Council and the company, and that they consider the Council has responsibility to adjust any variations in the company's actuarial contribution rates. • It would be optimal for a tripartite agreement to be in place, however on the basis of the evidence described above and the commitment of the Cheshire Pension Fund to put a tripartite agreement in place post year end in order to regularise the arrangement (and as such this will not be an area of judgement in future periods), we are satisfied that management's treatment to account for the company's contributions to the scheme as if it were a defined contributions scheme is not materially incorrect. • We do, however, continue to stress the importance of ensuring that a formal tripartite agreement is put in place as soon as possible and, consistent with the prior year, we regard the fact that this has not been actioned sooner as a control observation.

Financial statement level risks (continued)

	Risks identified in our Audit Plan	Commentary
2	**Going concern** • Cheshire East Council's review into the future of its subsidiary companies is still ongoing. The existence of an ongoing review into the company's future creates uncertainty about its ability to continue as a going concern. At the planning stage, we therefore identified going concern as an area of focus for our audit.	**Auditor commentary** • The directors are required to assess the suitability of the going concern assumption in their preparation of the financial statements and include suitable disclosures in respect of going concern. • In considering the appropriateness of adopting the going concern basis of preparation for the financial statements, the directors are required to consider a period of not less than twelve months from the date of approval of the financial statements. • We have reviewed Civicance's 3-year budget, which shows that the company has sufficient resources to continue in operation for the foreseeable future, assuming that no decisions to the contrary are made about its future by the council. • The company has received a letter of support from the council which states that no decisions have as yet been taken as to the implementation of any changes to Civicance and that, should any such changes be initiated as a consequence of the wider ongoing strategic review by Cheshire East Council, they confirm that sufficient resources will be made available to allow the company to meet its liabilities as they fall due. The letter covers a period of 12 months from the date the company approves its financial statements for the year ended 31 March 2019. • On this basis, we concur with management's decision to prepare the financial statements on a going concern basis. • We have reviewed the financial statement disclosures and are satisfied that these are adequate.

Other significant classes of transactions findings

	Other Risks identified in our Audit Plan	Commentary
1	**Completeness of creditors** • At the planning stage we identified a risk that creditors could be understated or not recorded in the correct period.	**Auditor commentary** • We have reviewed significant accrual balances as at the year end and understood the reason for any significant movements from expectations. • We have reviewed open purchase orders to confirm that an appropriate liability has been accrued for where required, as well as reviewing post year end bank statements and purchase invoice journals to determine whether there were any additional liabilities which should have been accrued for at the year end. **Conclusion** • We have not proposed any adjustments to creditors as a result of the work performed.
2	**Completeness of employee remuneration** • At the planning stage we identified a risk that employee remuneration could be understated or not recorded in the correct period.	**Auditor commentary** • We have reconciled payroll records to total payroll costs in the TB with no significant differences noted. • We have performed analytical procedures of the payroll expenses, taking into account the number of employees in the year and any pay increases. • We have reviewed a sample of starters and leavers during the year and ensured that correct documentation is available. **Conclusion** • We have not identified any issues as a result of the work performed.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK) 315)

Other communication requirements

	Issue	Commentary
1	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance.
4	**Written representations**	• Standard representations will be requested from management in respect of the significant assumptions used in making accounting estimates and ensuring that the financial statements are free of material error.
5	**Confirmation requests from third parties**	• We have obtained written confirmation of the company's year end bank balance with Barclays and have not noted any issues.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Misstatements**	• No misstatements have been identified during the audit.
8	**Internal controls**	• We have not noted any internal control findings which require reporting as a result of audit work performed.
9	**IFRS 16 'Leases'**	• IFRS 16 'Leases' is effective for annual periods on or after 1 January 2019 and provides new guidance for the accounting of leases. It is expected that the implementation of this standard will result in most leases being recognised on the balance sheet. This may have a significant impact on the financial statements as rental costs will be replaced by depreciation and an interest charge. • If not already done so then management will need to undertake and assessment of the expected impact on the financial records as this will be effective in the FY20 financial statements.

Independence, ethics and fees

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.
- The table below sets out the total fees for audit and non-audit services charged from the beginning of the financial year to September 2019, as well as the threats to our independence and safeguards have been applied to mitigate these threats.

	Fees £	Threat identified	Safeguards
Audit of company for the year ended 31 March 2019	7,000	N/A	N/A

- No none-audit services have been provided in respect of the year ended 31 March 2019.
- None of the above services were provided on a contingent fee basis.
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to the company. The table summarises all non-audit services which were identified.

This covers all services provided by us and our network to the group/company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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 including significant risks and Key Audit Matters	•	
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	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to **ensure** our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

This page is intentionally left blank

Grant Thornton

The Audit Findings for Engine of the North Limited

Year ended 31 March 2019

Michael Lowe
Associate Director
T 07917 200 030
E michael.p.lowe@uk.gt.com

Clare Hunter
Audit Manager
T 0121 232 5307
E clare.hunter@uk.gt.com

Dan Poxon
Audit In-charge
T 0121 232 5217
E daniel.s.poxon@uk.gt.com

Private and Confidential

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

T +44 (0)161 953 6900
www.grantthornton.co.uk

The Directors
Engine of the North Limited
Cledford Lane
Middlewich
Cheshire
CW10 0JR

Dear Sirs

Audit Findings for Engine of the North Limited for the year ended 31 March 2019

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

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

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

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

Michael Lowe

For Grant Thornton UK LLP

Chartered Accountants
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

Contents

Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

- Going concern and subsequent events reviews to be updated to the point of approval of the financial statements
- Signed letter of representation (to be provided by GT at the point of signing the financial statements)

Status
- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified but include an Emphasis of Matter paragraph re the basis of preparation of the financial statements on a non-going concern basis. This is explained further on page 7.

There have been no changes to our audit approach as previously communicated in our Audit Plan.

Significant findings

Risks identified in our Audit Plan	Commentary
1 **Improper revenue recognition** • Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	**Auditor commentary** • We have reviewed and tested the revenue recognition policies for appropriateness and consistency. The revenue recognition policy for each of the revenue streams has been documented and ensured to be applied consistently across the year. • During the year, the company has adopted IFRS 15 'Revenue from contracts with customers'. Management have performed an impact assessment and concluded that there are no material differences to the previous revenue recognition policies. This is mainly as a result of contracts completing as at 31 March each year and all performance obligations having been satisfied. We concur with this judgement. • We have analytically reviewed actual revenue against budget for each significant revenue stream and corroborated any significant variances observed. • For the management fee from Cheshire East Council, we have obtained a reconciliation performed by the client and confirmed the amounts to sales invoices and the receipts in the current account. • For other material revenue streams, we have selected a sample of transactions and agreed to evidence that the service had been provided, to ensure that the company was entitled to recognise the revenue. • We have performed cut-off testing for revenue by reviewing sales transactions around the year-end to check that they were recorded in the correct period. • We have not identified any issues in respect of revenue as a result of testing performed.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK) 315)

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550)

Significant findings (continued)

	Risks identified in our Audit Plan	Commentary
2	**Management override of controls** • Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities	**Auditor commentary** • We have performed a review of all estimates, judgements and decisions made by management through discussions around the control environment. • We have performed work around journal entries during the year including a review of large and unusual transactions. • We did not note any instances of management override of controls during the course of the audit.

Financial statement level risks

Risks identified in our Audit Plan	Commentary
1 **Going concern** • At the planning stage we identified going concern as an area of focus for our audit based on our awareness that Cheshire East Council was conducting an ongoing review into the future of its subsidiary companies, including Engine of the North. • From discussions with management during the audit, we understand that a decision has now been taken that the services provided by Engine of the North will be moved back into the Council and that Engine of the North will ultimately cease to trade.	**Auditor commentary** • The directors are required to assess the suitability of the going concern assumption in their preparation of the financial statements and include suitable disclosures in respect of going concern. • In considering the appropriateness of adopting the going concern basis of preparation for the financial statements, the directors are required to consider a period of not less than twelve months from the date of approval of the financial statements. • As a decision has now been taken which will result in the closure of the company, the directors have chosen to prepare the financial statements on a cessation basis. We concur with this judgement. • As the financial statements have been prepared on a basis other than the going concern basis, our audit report therefore includes an emphasis of matter paragraph in respect of the basis of preparation. • An emphasis of matter paragraph is not a qualification of the audit opinion, but draws attention to the fact that the financial statements have been prepared on a non going concern basis. • We have reviewed the financial statement disclosures and are satisfied that these are adequate.

Other significant classes of transactions findings

	Issue	Commentary
1	**Completeness of creditors** • At the planning stage we identified a risk that creditors could be understated or not recorded in the correct period.	**Auditor commentary** • We have reviewed significant accrual balances as at the year-end and understood the reason for any significant movements from expectations. • We reviewed open purchase orders to confirm that an appropriate liability had been accrued for where required, as well as reviewing post year end bank statements and purchase invoice journals to determine whether there were any additional liabilities which should have been accrued for at the year end. • We have not proposed any adjustments to creditors as a result of the work performed.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK) 315)

Other communication requirements

	Issue	Commentary
1	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance.
4	**Written representations**	• Standard representations will be requested from management in respect of the significant assumptions used in making accounting estimates and ensuring that the financial statements are free of material error. Our representation letter will be tailored for the fact that the financial statements have been prepared on a non-going concern basis.
5	**Confirmation requests from third parties**	• We have obtained written confirmation of the company's year end bank balance with Barclays and have not noted any issues.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Misstatements**	• No misstatements have been identified during the audit.
8	**Internal controls**	• We have not noted any internal control findings which require reporting as a result of audit work performed.
9	**IFRS 16 'Leases'**	• IFRS 16 'Leases' is effective for annual periods on or after 1 January 2019 and provides new guidance for the accounting of leases. It is expected that the implementation of this standard will result in most leases being recognised on the balance sheet. This may have a significant impact on the financial statements as rental costs will be replaced by depreciation and an interest charge. • If not already done so then management will need to undertake and assessment of the expected impact on the financial records as this will be effective in the FY20 financial statements.

Independence, ethics and fees

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.
- The table below sets out the total fees for audit services charged from the beginning of the financial year to September 2019. We did not provide any non-audit services to the company during this period.

	Fees £	Threat identified	Safeguards
Audit of company for the year ended 31 March 2019	**7,000**	N/A	N/A

- No non-audit services have been provided in respect of the year ended 31 March 2019.
- None of the above services were provided on a contingent fee basis
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to the company. The table summarises all services which were identified

Page 88

This covers all services provided by us and our network to the company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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 including significant risks and Key Audit Matters	•	
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	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

© 2019 Grant Thornton UK LLP

Grant Thornton

© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

The Audit Findings for The Skills & Growth Company Limited

Year ended 31 March 2019

Michael Lowe
Associate Director
T 07917 200 030
E michael.p.lowe@uk.gt.com

Clare Hunter
Audit Manager
T 0121 232 5307
E clare.hunter@uk.gt.com

Dan Poxon
Audit In-charge
T 0121 232 5217
E daniel.s.poxon@uk.gt.com

Grant Thornton

Private and Confidential

Grant Thornton UK LLP
4 Hardman Square
Spinningfields
Manchester
M3 3EB

T +44 (0)161 953 6900
www.grantthornton.co.uk

The Directors
The Skills & Growth Company Limited
Cledford Lane
Middlewich
Cheshire
CW10 0JR

Dear Sirs

Audit Findings for The Skills & Growth Company Limited for the year ended 31 March 2019

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

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

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

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

Michael Lowe

For Grant Thornton UK LLP

Chartered Accountants
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Contents

© 2019 Grant Thornton UK LLP

Status of the audit and audit opinion

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

- Going concern and subsequent events reviews to be updated to the point of approval of the financial statements
- Signed letter of representation (to be provided by GT at the point of signing the financial statements)

Status

- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

Our anticipated audit report opinion will be unmodified but include an Emphasis of Matter paragraph re the basis of preparation of the financial statements on a non-going concern basis. This is explained further on page 8.

There have been no changes to our audit approach as previously communicated in our Audit Plan.

© 2019 Grant Thornton UK LLP

Significant findings

Risks identified in our Audit Plan	Commentary
1 **Improper revenue recognition** • Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	**Auditor commentary** • We have reviewed and tested the revenue recognition policies for appropriateness and consistency. The revenue recognition policy for each of the revenue streams has been documented and ensured to be applied consistently across the year. • During the year, the company has adopted IFRS 15 'Revenue from contracts with customers'. Management have performed an impact assessment and concluded that there are no material differences to the previous revenue recognition policies. This is mainly as a result of contracts completing as at 31 March each year and all performance obligations having been satisfied. We concur with this judgement. • We have analytically reviewed actual revenue against budget for each significant revenue stream and corroborated any significant variances observed. • For the management fee from Cheshire East Council, we have compared the actual amount received to the amount agreed in the signed management fee letter at the beginning of the year. Variations from the original fee agreed have been agreed to supporting documentation. • For other material revenue streams, we have selected a sample of transactions and agreed to evidence that the service had been provided, to ensure that the company was entitled to recognise the revenue. • We have performed cut-off testing for revenue by reviewing sales transactions around the year-end to check that they were recorded in the correct period. • We have not identified any issues in respect of revenue as a result of testing performed.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK) 315)

In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK) 550)

Significant findings (continued)

	Risks identified in our Audit Plan	Commentary
2	**Management override of controls** • Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities	**Auditor commentary** • We have performed a review of all estimates, judgements and decisions made by management through discussions around the control environment. • We have performed work around journal entries during the year including a review of large and unusual transactions. • We did not note any instances of management override of controls during the course of the audit.

Financial statement level risks

Risks identified in our Audit Plan	Commentary
❶ **Disclosure of pension arrangements** • The company has a deed of variation to its agency agreement with Cheshire East Council, under which the company is required to pay a fixed percentage of the pensionable pay of eligible employees throughout the term of its contract. • This is considered by management to be a pass-through arrangement, which enables the company to account for the contributions it pays into the LGPS as if they were contributions into a defined contribution scheme. • This means that company does not account for its share of the pension scheme assets and liabilities in its balance sheet and is not required to recognise actuarial gains or losses in its income statement. • During the prior year audit of Cheshire East Council, a control deficiency was identified in respect of the fact that there is not a tripartite agreement in place between the company, the council and the administering authority of the pension scheme. • A tripartite agreement would evidence which party is considered responsible by the pension scheme for any obligations to meet a shortfall in the plan assets to cover the post employment benefit obligations.	**Auditor commentary** • During the audit we discussed with management whether progress had been made during the year in drawing up a tripartite agreement. • We understand that this has not happened to date, because the Cheshire Pension Fund was initially of the opinion that a tripartite agreement was not required. This was on the basis that the pension fund was aware of the pass-through arrangements from the start and felt the nature of the arrangement was already adequately documented in the Deed of Guarantee and Deed of Variation of Contract. • We have sought further technical advice in this area, and also reviewed current market practice of similar arrangements between Councils and subsidiaries, and we remain of the view that a tripartite agreement is still required, because the existing agreements do not fully release the company from its obligations to the pension fund. • We understand that the Cheshire Pension Fund has now expressed willingness to put a tripartite agreement in place for other subsidiaries of the Council, although the intention is not to progress a tripartite agreement for The Skills & Growth Company on the basis that, as described on page 8, the services provided by the company have been moved back to the Council with effect from 1 August 2019 and the company will cease to trade after October 2019. • We have received confirmation from the Council's legal team that, in their opinion, the deeds of variation provide clear acceptance by the Council that it has retained all the investment and actuarial risks for the pensions of the employees of the company. • We have also received confirmation from the pension fund that they consider the contribution arrangements for the company to be fixed due to the compensation arrangement in place between the Council and the company, and that they consider the Council has responsibility to adjust any variations in the company's actuarial contribution rates. • It would be optimal for a tripartite agreement to be in place, however on the basis of the evidence described above, we are satisfied that management's treatment to account for the company's contributions to the scheme as if it were a defined contribution scheme is not materially incorrect.

Page 97

Financial statement level risks (continued)

Risks identified in our Audit Plan	Commentary
2 **Going concern** • At the planning stage we identified going concern as an area of focus for our audit based on our awareness that Cheshire East Council was conducting an ongoing review into the future of its subsidiary companies, including The Skills & Growth Company. • From discussions with management during the audit, we understand that a decision has now been taken that the services provided by The Skills & Growth Company will be moved back into the Council and that The Skills & Growth Company will ultimately cease to trade.	**Auditor commentary** • The directors are required to assess the suitability of the going concern assumption in their preparation of the financial statements and include suitable disclosures in respect of going concern. • In considering the appropriateness of adopting the going concern basis of preparation for the financial statements, the directors are required to consider a period of not less than twelve months from the date of approval of the financial statements. • As a decision has now been taken which will result in the closure of the company, the directors have chosen to prepare the financial statements on a cessation basis. We concur with this judgement. • As the financial statements have been prepared on a basis other than the going concern basis, our audit report therefore includes an emphasis of matter paragraph in respect of the basis of preparation. • An emphasis of matter paragraph is not a qualification of the audit opinion, but draws attention to the fact that the financial statements have been prepared on a non going concern basis. • We have reviewed the financial statement disclosures and are satisfied that these are adequate.

Other significant classes of transactions findings

	Issue	Commentary
1	**Completeness of creditors** • At the planning stage we identified a risk that creditors could be understated or not recorded in the correct period.	**Auditor commentary** • We have reviewed significant accrual balances as at the year-end and understood the reason for any significant movements from expectations. • We reviewed open purchase orders to confirm that an appropriate liability had been accrued for where required, as well as reviewing post year end bank statements and purchase invoice journals to determine whether there were any additional liabilities which should have been accrued for at the year end. • We have not proposed any adjustments to creditors as a result of the work performed.
2	**Completeness of employee remuneration** • At the planning stage we identified a risk that employee remuneration could be understated or not recorded in the correct period.	**Auditor commentary** • We performed a payroll proof in total by reconciling the payroll reports to the year end financial statements. • We reviewed a sample of starters and leavers to ensure that employees are accurately recorded on the month end payroll reports. • We did not note any other issues as a result of the work performed.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK) 315)

Other communication requirements

	Issue	Commentary
1	**Matters in relation to fraud**	• We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance.
4	**Written representations**	• Standard representations will be requested from management in respect of the significant assumptions used in making accounting estimates and ensuring that the financial statements are free of material error. Our representation letter will be tailored for the fact that the financial statements have been prepared on a non-going concern basis.
5	**Confirmation requests from third parties**	• We have obtained written confirmation of the company's year end bank balance with Barclays and have not noted any issues.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Misstatements**	• Misstatements identified have been summarised on page 11.
8	**Internal controls**	• We have not noted any internal control findings which require reporting as a result of audit work performed.
9	**IFRS 16 'Leases'**	• IFRS 16 'Leases' is effective for annual periods on or after 1 January 2019 and provides new guidance for the accounting of leases. It is expected that the implementation of this standard will result in most leases being recognised on the balance sheet. This may have a significant impact on the financial statements as rental costs will be replaced by depreciation and an interest charge. • If not already done so then management will need to undertake and assessment of the expected impact on the financial records as this will be effective in the FY20 financial statements.

Misstatements - adjusted

		£000	£000	£000	£000	£000
		Profit and loss account		Balance sheet		
Journal reference	Detail	Debit	Credit	Debit	Credit	Profit effect
	Profit/(Loss) per draft accounts					**(36)**
1)	Dr Accruals			8		
	Cr Admin expenses		8			8
	Being reversal of accrued redundancy adjustment					
	Profit/(Loss) per final accounts					**(28)**

No misstatements remain unadjusted.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK) 265)

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Independence, ethics and fees

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.
- The table below sets out the total fees for audit services charged from the beginning of the financial year to September 2019. We did not provide any non-audit services to the company during this period.

	Fees £	Threat identified	Safeguards
Audit of company for the year ended 31 March 2019	**8,800**	N/A	N/A

- No non-audit services have been provided in respect of the year ended 31 March 2019.
- None of the above services were provided on a contingent fee basis
- For the purposes of our audit we have made enquiries of all Grant Thornton teams within the Grant Thornton International Limited network member firms providing services to the company. The table summarises all services which were identified

This covers all services provided by us and our network to the company, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (ES 1.69)

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
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 including significant risks and Key Audit Matters	•	
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	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

© 2019 Grant Thornton UK LLP

© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grantthornton.co.uk

Cheshire East Council

Shareholder Committee Meeting 22nd January 2020

Recruitment of Co-opted Members to ASDV Shareholder Committee

1. Proposed Timetable

Activity	Date
Advertise the vacancy	w/c 27th January 2020
Vacancy closes	Friday 13th March 2020
Shortlist applicants	Thursday 19th 14.00-16.00; or 26th March 2020 13.50-15.00 (whichever date the Committee meeting does not take place on)
Interviews	Tuesday 21st April 202013.30 – 17.00; or Friday 24th April 2020 9.00 – 14.30 (subject to availabilitiy of the interview panel representatives)

2. Nomination to Interview Panel

Members of the Interview Panel -

- Frank Jordan
- Councillor Steve Carter
- A nomination from the Shareholder Committee

3. Draft Press Release

Overleaf.

News Release

Cheshire East Council

27 January, 2020

Council seeks candidates for ASDV Shareholder Committee roles

Cheshire East Council is looking to recruit two residents to sit on a committee that helps govern three of it's Alternative Service Delivery Vehicle (ASDV) companies, established to seek better value from service delivery.

The ASDV Shareholder Committee provides an independent and high-level focus on the performance and commissioning arrangements for ANSA Environmental Services Ltd, Orbitas Bereavement Services Ltd, and Transport Service Solutions Ltd.

The committee will meet approximately six times in 2020/21 and candidates will be expected to serve for two years.

Councillor Steve Carter, Chairman of the ASDV Shareholder Committee said:

"We are looking for two individuals with strong commercial acumen. We would welcome applications from people with experience in financial management, business development and growth, and ideally an understanding of at least one of the sectors the companies operate in.

Providing constructive challenge as part of the committee supports the council's ambition for its group of companies to be innovative and income-generating."

Candidates interested in joining the committee should be completely independent, should not be politically active or have a relationship with a councillor or a member of the three companies' staff.

The closing date is 13th March 2020 and further information about the committee can be found on the council's website at xxxxxx:

Those interested in applying should contact the council's Committee Coordinator, Vicki Godfrey, by phone: 01270 686124; or by email: vicki.godfrey@cheshireeast.gov.uk

ENDS

Media relations officer: Michael Moore
Direct line: 01270 686581
Email: michael.moore@cheshireeast.gov.uk

DRAFT

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank