

# The Audit Plan for Cheshire East Council

---

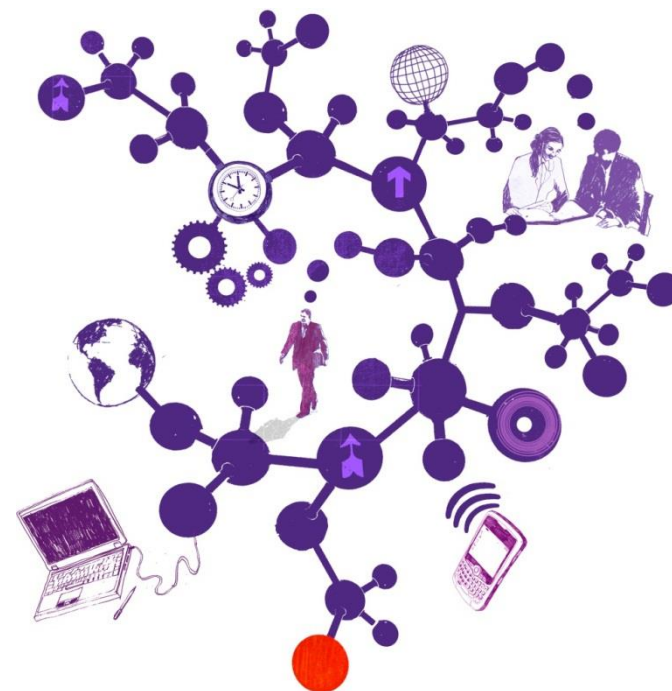
**Year ended 31 March 2014**

14 March 2014

**Jon Roberts**  
Engagement lead  
T 0121 232 5410  
E [jon.roberts@uk.gt.com](mailto:jon.roberts@uk.gt.com)

**Allison Rhodes**  
Manager  
T 0121 232 5285  
E [allison.rhodes@uk.gt.com](mailto:allison.rhodes@uk.gt.com)

**Naomi Povey**  
Executive  
T 0121 232 5294  
E [naomi.j.povey@uk.gt.com](mailto:naomi.j.povey@uk.gt.com)



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. 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.

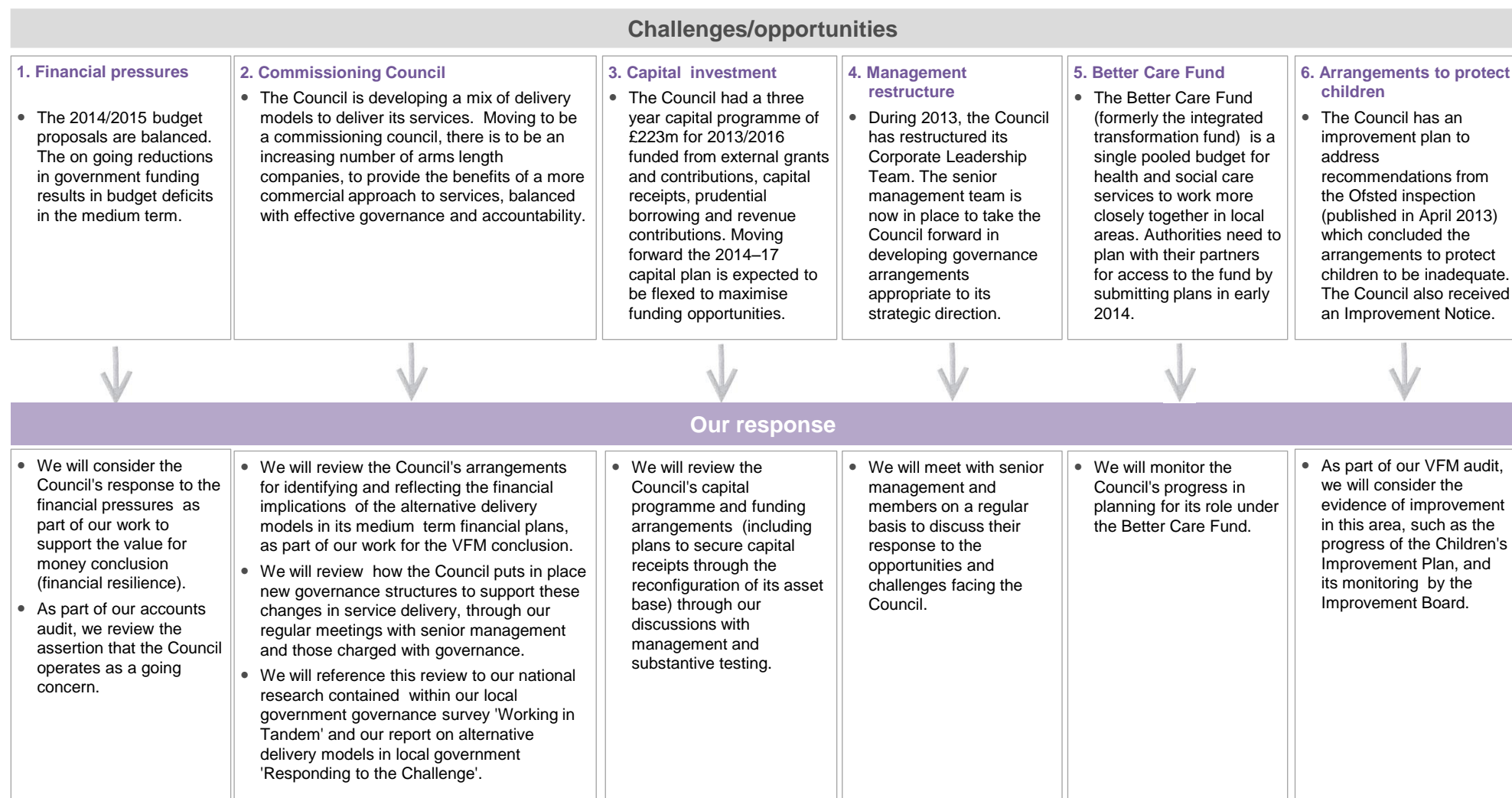
---

# Contents

Section	Page
Understanding your business	4
Developments relevant to your business and the audit	5
Our audit approach	6
Significant risks identified	7
Other risks identified	8
Value for Money	10
Interim audit work	11
Key dates	12
Fees and independence	13
Communication of audit matters with those charged with governance	15

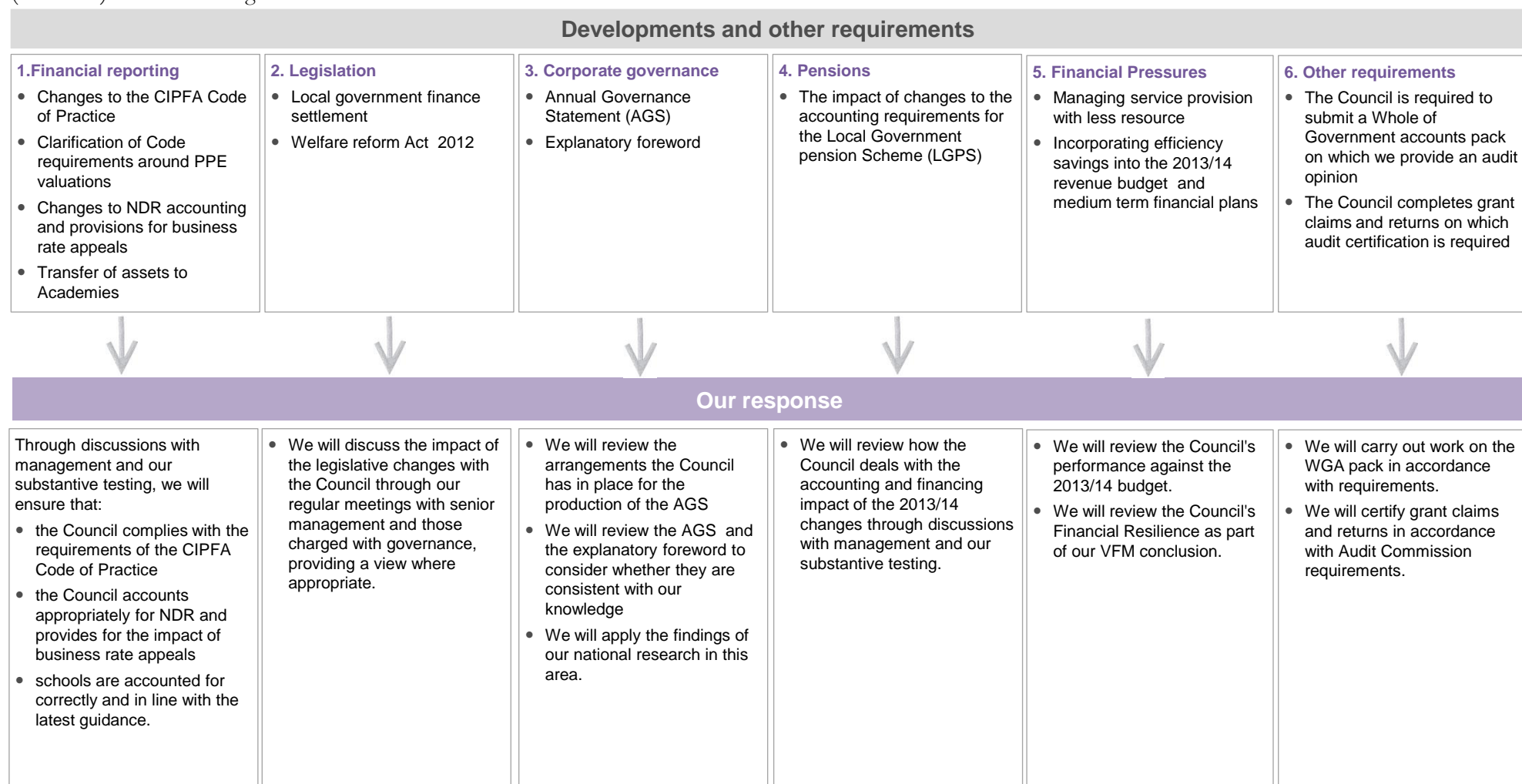
# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

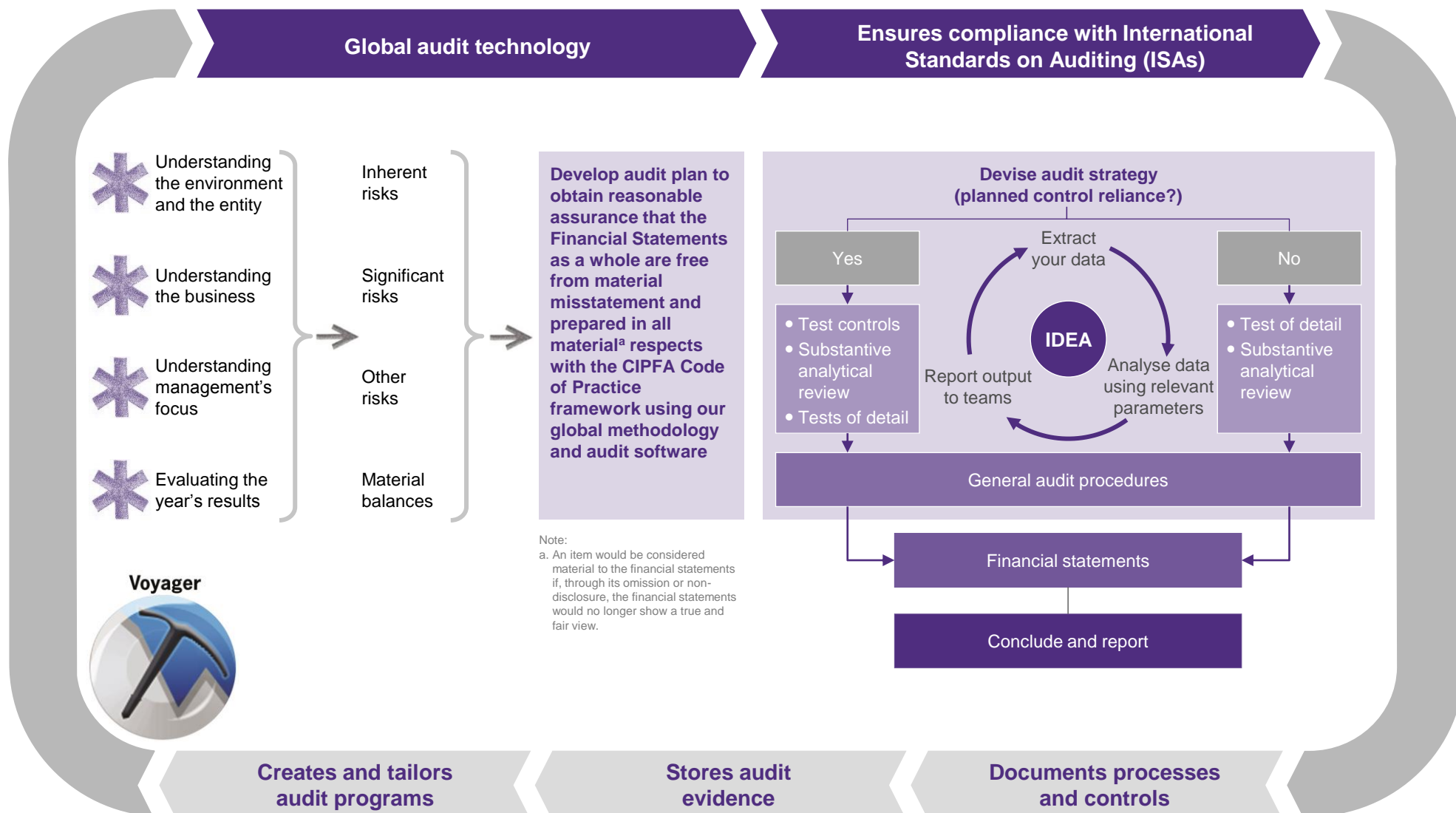


# Developments relevant to your business and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice ('the code') and associated guidance.



# Our audit approach



# Significant risks identified

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

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<b>Work planned:</b> <ul style="list-style-type: none"><li>• Review and testing of revenue recognition policies</li><li>• Testing of material revenue streams</li></ul>
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	We have discussed with management the rationale and evidence to support key accounting estimates and judgements. <b>Work planned:</b> <ul style="list-style-type: none"><li>• Review of accounting estimates, judgments and decisions made by management</li><li>• Testing of journal entries</li><li>• Review of significant and unusual transactions</li></ul>

# Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work programme
Operating expenses	Creditors understated or not recorded in the correct period	<p>We will document the processes and controls in place around the accounting for operating expenses and carry out walkthrough tests to confirm the operation of controls</p> <p>We will carry out testing including:</p> <ul style="list-style-type: none"><li>• the completeness of the subsidiary system interfaces and control account reconciliations</li><li>• reviewing the monthly trend analysis of payments</li><li>• cut off testing of purchase orders and goods received notes (both before and after year end)</li></ul> <p>Testing will also cover a sample of operating expenses covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.</p>
Employee remuneration	Employee remuneration accrual understated	<p>We will document the processes and controls in place around the accounting for employee remuneration and carry out walkthrough tests to confirm the operation of controls.</p> <p>We will carry out testing including:</p> <ul style="list-style-type: none"><li>• the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements</li><li>• a sample of payments made in April &amp; May to ensure payroll expenditure is recorded in the correct year.</li><li>• reviewing the monthly trend analysis of total payroll</li></ul> <p>Testing will also cover a sample of employee remuneration payments covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.</p>



## Other risks identified continued

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other reasonably possible risks	Description	Work programme
Welfare Expenditure	Welfare benefit expenditure improperly computed	We will document the processes and controls in place around the accounting for welfare benefits and carry out walkthrough tests to confirm the operation of controls.  We will carry out testing in accordance with the methodology required to certify the housing benefit subsidy claim.
Property, Plant & Equipment	PPE activity not valid	We will document the processes and controls in place around the accounting for PPE and carry out walkthrough tests to confirm the operation of controls.  We will carry out substantive testing on a sample of PPE transactions covering the period 1/4/13 to 31/3/14.
Property, Plant & Equipment	Revaluation measurement not correct	We will document the processes and controls in place around the accounting for revaluations of PPE and carry out walkthrough tests to confirm the operation of controls.  We will review the qualifications, term of reference and the assumptions and methods used by the Valuer, in work carried out as an expert for the Council.  We will review valuation reports to support the accounting entries.

# Value for money

## Value for money

The Code requires us to issue a conclusion on whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

Our VfM conclusion is based on the following criteria specified by the Audit Commission:

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

We have undertaken a risk assessment to identify areas of risk to our VfM conclusion. We will undertake work in the following areas to address the risks identified:

- Review the Council's financial resilience, as reflected in the medium term financial strategy and the savings factored into the annual budgets.
- Review the Council's arrangements for identifying and reflecting the financial implications of the development of alternative delivery models in its medium term financial plans.
- Review the Council's progress in planning for its role under the Better Care Fund (previously Integration Transformation Fund).
- Review the evidence of improvements in the arrangements to protect children following the Ofsted inspection report published in April.
- Review the Council's progress in implementing actions to address the matters raised in the 2012/13 VfM conclusion specifically:
  - arrangements to procure goods and services.
  - understanding of costs and performance.
  - arrangements to develop business proposals and manage significant projects.

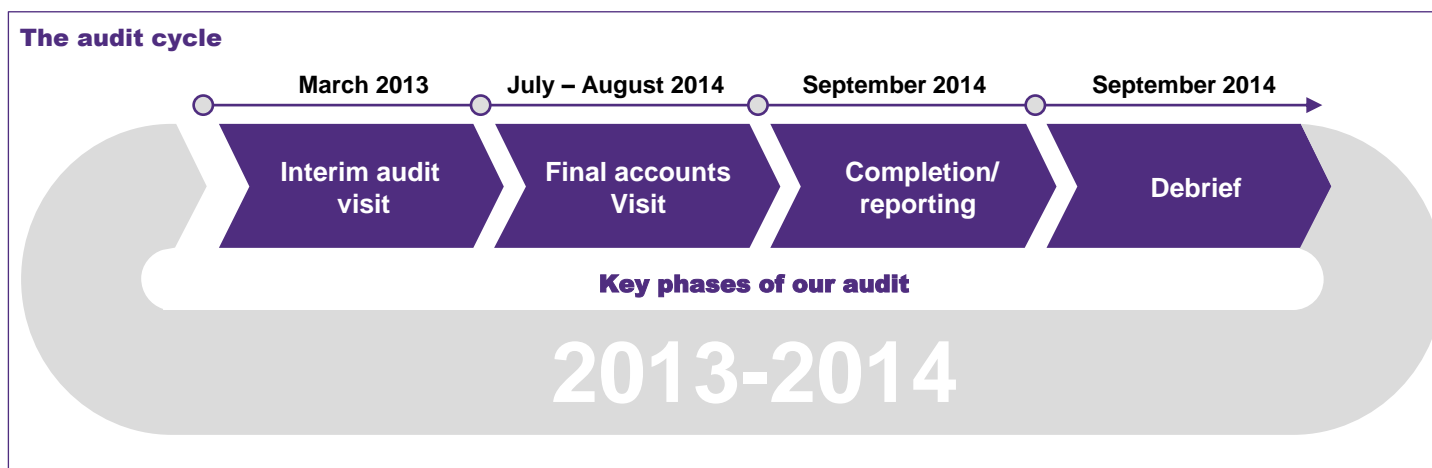
The results of our VfM audit work and the key messages arising will be reported in our Audit Findings report and in the Annual Audit Letter.

# Interim audit work

We will report the results of our interim work to the June meeting of the Audit and Governance. The work to be carried out is detailed in the table below. Should the outcome of our interim work impact upon our overall audit plan and strategy, we will report any changes back to those charged with governance.

	Work to be performed	Outcome of the work to be performed
<b>Internal audit</b>	We review internal audit's overall arrangements in accordance with auditing standards.  We also review internal audit's work on the Council's key financial systems to date.	We will conclude whether the internal audit service continues to provide an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment at the Council.  Our review of internal audit work will identify whether there are any weaknesses which impact on our audit approach.
<b>Walkthrough testing</b>	We complete walkthrough tests of controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. This covers some procedures operated by the shared service provider (under the partnership arrangement with Cheshire West and Chester).  Our work determines whether internal controls have been implemented in accordance with our documented understanding.	We will conclude whether our work has identified any weaknesses which impact on our audit approach.
<b>Review of information technology controls</b>	Our information systems specialist performs a high level review of the general IT control environment, as part of the overall review of the internal controls system. We also perform a follow up of the issues that were raised last year.	We will conclude whether our work identifies any material weaknesses which are likely to adversely impact on the Council's financial statements.
<b>Journal entry controls</b>	We review the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.	The work will identify whether there any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.
<b>Early substantive testing</b>	We will complete testing on initial samples of employee remuneration, operating expenses and income.	The work will inform our approach to the audit of the Council's accounts and contribute to the assurance for material items.

# Key dates



Date	Activity
February 2014	Planning
10 March 2014	Interim site visit
27 March 2014	Presentation of initial audit plan to Audit and Governance
21 July – August 2014	Year end fieldwork
September 2014 (TBA)	Audit findings clearance meeting with Head of Corporate Resources & Stewardship
18 September 2014	Report audit findings to those charged with governance (Audit and Governance Committee)
week commencing 22 September 2014	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	205,050
Grant certification	26,900
<b>Total fees (excluding VAT)</b>	<b>231,950</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations

It is important to note that the actual certification fees for 2013/14 may be higher or lower than the indicative fee stated above, because the auditor is required to undertake more or less work compared to 2011/12 on which the fee is based. Auditors must seek the agreement of the Audit Commission to any variation to the grant certification fee.

## Fees for other services

	£
None	Nil

## Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we have previously reported to the Audit and Governance Committee, the safeguards to mitigate the threat to the independence of the auditor arising from the appointment of the former Engagement Lead to the post of Head of Corporate resources and Stewardship (Deputy Section 151 officer). These arrangements have been agreed with the Audit Commission and are repeated at page 14 of this audit plan.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

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

---

# Independence

In January 2014 Judith Tench joined Cheshire East Council as Head of Corporate Resources and Stewardship (Deputy s151 Office). Judith was formerly employed by Grant Thornton UK LLP and was the engagement lead for the external audit of the Council. This appointment poses a threat (actual or perceived) to the independence of the auditor.

In these circumstances we have taken actions to safeguard the independence of the firm and of the auditor, in accordance with the Ethical Standards and the Audit Commission's Standing Guidance. A summary of these safeguards are set out below. We will also disclose this threat and these safeguards in our audit findings report.

We have discussed these safeguards with the Council's Leader, Chief Executive and Chief Operating Officer. We have also discussed and agreed these safeguards with the Audit Commission.

## **Safeguards to mitigate the threat to the independence of the auditor**

- Judith withdrew from the audit team as soon as she advised her interest in applying for the role at the Council and alternative arrangements were put in place to discuss and finalise the Annual Audit Letter and to certify two grant claims. This concluded the 2012/13 audit.
- For the 2013/14 audit all senior members of the team are now replaced by individuals who have not previously worked with Judith. Your new audit team are set out on page 4.
- As an additional safeguard the team are from another Grant Thornton region (Midlands) and are headed up by the Regional Lead Partner for the Midlands - Jon Roberts. Your new audit team also includes Allison Rhodes and Naomi Povey.
- The audit engagement team will not conduct any meetings with Judith without another Council officer being present. This additional safeguard will continue for the next two years.
- In addition we confirm that Judith has no residual financial relationships with the firm.

# Communication of audit matters with those charged with governance

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

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 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 a report to the Council.

## Respective responsibilities

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

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

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

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

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	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



© 2014 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires.

Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

**[grant-thornton.co.uk](http://grant-thornton.co.uk)**