

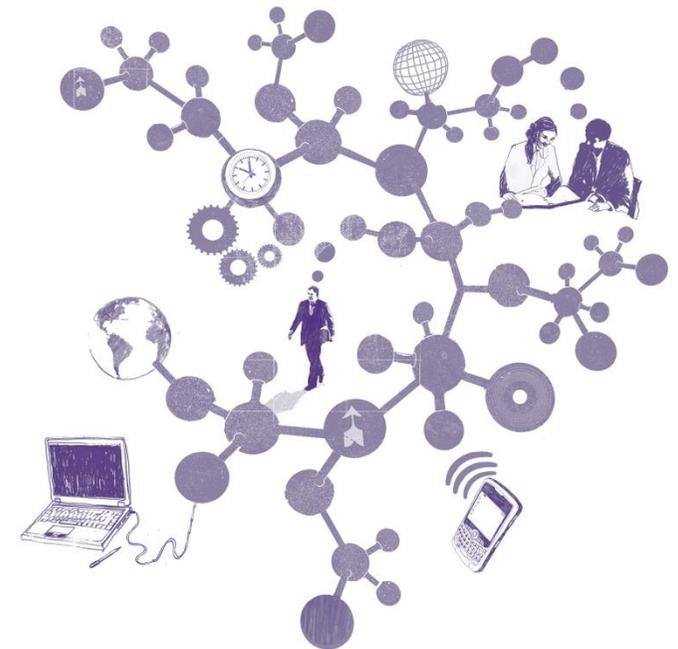
The Annual Audit Letter for Cheshire East Council

Year ended 31 March 2014

24 October 2014

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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Cheshire East Council ('the Council') for the year ended 31 March 2014.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan, dated 14 March 2014 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements in our Audit Findings Report on 25 September 2014 to the Audit and Governance Committee. The key messages reported are:

- We identified one adjustment affecting the Council's reported financial position. The draft financial statements recorded an overall net income position of £12.281m; the audited financial statements report net income of £21.168m. The adjustment relates to the timing of the recognition of capital grant income for schools of £8.887m now recognised as income in the year rather than being held on the balance sheet.
- We identified a number of classification adjustments, which included the reclassification of housing benefit grants (on the comprehensive income and expenditure statement) and reclassification between capital grants receipts in advance and creditors (affecting the balance sheet). We also agree a number of other amendments to improve the consistency and content of disclosures.
- There were two matters identified, relating to the estimate of the PFI liability and the treatment of unspent dedicated schools grant, which could be interpreted differently from the Council's accounting. However these were technical in nature and were not material to the user of the accounts. The Council's management and the Audit and Governance Committee agreed that the accounts would not be amended, instead these matters would be considered further in 2014/15.
- We also highlighted that the explanatory foreword provided a clear and balanced statement of the Council's activities for the year and we commended the Council on this important section of its accounts.

Key issues and recommendations are at Appendix A.

We issued an unqualified opinion on the Council's 2013/14 financial statements on 29 September 2014, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages

Value for Money (VfM) conclusion

We issued an unqualified VfM conclusion for 2013/14 on 29 September 2014. On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

This represented an improvement from the previous year's qualified VfM conclusion and the Council is to be commended for the improvements it has made over the last year.

Overall our work highlights that the Council managed its finances effectively for 2013/14 within its revenue budget of £260m, achieved a surplus of £0.9m (after creating new earmarked reserves of £12.4m approved in July 2014 and £0.5m elections reserve set up in October 2013) increasing its general reserves to £19.8m. It has consolidated improvements to its financial planning and controls, updated its medium term financial strategy, identified measures to address the £8.3m net budget deficit and approved a balanced budget for 2014/15. There remains a financial gap of £22m over the following two years, which whilst not as large as that faced by Councils with greater reliance on government grant, represents a significant challenge.

During 2013/14 the Council appointed its senior leadership team after a period of key posts being filled on an interim basis. The management review accompanies changes to the Council's approach to deliver services and to achieve the outcomes set out in the Three Year Council Plan.

The Council's three year plan highlighted the five 'Outcomes', the performance management framework identifies how the Council is delivering each outcome and the medium term financial strategy shows how that performance is funded. Specific project management arrangements for the development and monitoring of programmes of financial significance or particular risk are also now fully in place.

We set out in our Audit Findings report a summary of our findings against six risk areas covering the Audit Commission's criteria, where we have concluded that overall the Council's arrangements were adequate with aspects where further improvements may be made. Our specific recommendations focus on the Council's developments in these key areas and are summarised at Appendix A.

Key messages

Whole of Government Accounts	We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. The pack required amendment to reflect changes to the financial statements and other consistency matters. We were then able to report that the Council's pack was consistent with the audited financial statements.
Certification of grant claims and returns	We certified the Local Transport Plan claim and there were no matters arising. Our work to certify the Housing Benefit Subsidy claim is on-going. The results of this work will be reported to the Audit and Governance Committee in our grant certification report, due in early 2015.
Audit fee	Our fee for 2013/14 is £206,120 (excluding fees for grant certification work) which reflects an increase of £1,070 on our planned fee for the year. This increase is for additional work on business rates following changes to the grant certification requirements, which meant we no longer certify the business rates grant claim. The net impact on the combined audit and grant certification fee is a reduction of £3,329. Further details of fees are included at Appendix B.
Certificate	Following completion of the Whole of Government Accounts work, we formally concluded the audit and issued the certificate on 3 October.

Appendix A: Key issues and recommendations

This appendix summarises the key recommendations identified during the 2013/14 audit and reported in full in the Audit Findings Report.

Issue and recommendation	Management response/ responsible officer/ due date
<p>Property, plant and equipment and capital accounting: We made a number of recommendations relating to accounting for capital expenditure and financing and movements in the value of property plant and equipment.</p> <p>Recommendations:</p> <ul style="list-style-type: none">• The Council should ensure that it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period• We recommend that the Council complete a full review in 2014/15 of the underlying asset register and the associated capital expenditure to ensure appropriate application of the Code's requirements.• We recommend that the Council reviews its approach to capital accounting entries in 2014/15 and specifically its use of a dedicated capital receipts reserve and the capital grant unapplied account.	<p>The Council will ensure it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. Earlier engagement will take place with the external valuers, Deloitte to ensure an assessment has been undertaken on all assets not subject to revaluation within the year.</p> <p>Responsible officer: Head of Corporate Resources and Stewardship Due date: March 2015</p> <p>A full review of the asset register and associated capital expenditure will be undertaken in 2014/15 to ensure full consideration of the Code requirements.</p> <p>The requirement for a dedicated earmarked reserve for revenue contributions to future capital expenditure will be actioned in 2014/15. We will review the disclosure of the capital grant unapplied account as part of the 2014/15 accounts closedown process.</p> <p>Responsible officer: Corporate Finance Manager Due date: March 2015</p>

Appendix A: Key issues and recommendations

Issue and recommendation	Management response/ responsible office/ due date
<p>PFI liability and disclosures: There are some differences between the Council 's overall PFI liability and 'future cost' disclosures and those estimated by the audit team using the GT model. The PFI liability is £5.358m below our range of estimates. The differences are due to the way in which the initial construction costs of the scheme were derived and apportioned over the properties involved in the scheme.</p> <p>Recommendation: We recommend that the Council reviews the initial construction costs within the accounting model.</p>	<p>We will review the initial construction costs within the accounting model - agreed in 2009/10. We will reconsider our accounting treatment in consultation with the auditors.</p> <p>Responsible officer: Corporate Finance Manager Due date: March 2015</p>
<p>Receipts in advance: We made two recommendations relating to the treatment of grant income held as receipts in advance (represented by a liability on the balance sheet) as these may only be accounted for this way when there are formal conditions in place that prevent the funds from being recognised as income.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> We recommend that the Council considers the accounting treatment of Dedicated Schools Grant and assess whether any balances to be carried forward each year would be more appropriately accounted for as an earmarked reserve. We recommend that the Council reviews its remaining balances held as receipts in advance. 	<p>We will review accounting treatment of the Dedicated Schools Grant as part of the 2014/15 closedown process.</p> <p>Responsible officer: Accountancy Services Manager Due date: March 2015</p> <p>The Council will review balances held as receipts in advance to assess the appropriate accounting treatment.</p> <p>Responsible officer: Corporate Finance Manager Due date: March 2015</p>

Appendix A: Key issues and recommendations

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<p>Financial Governance Our work on the VFM Conclusion resulted in a number of recommendations to further improve aspects of financial governance.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> • Encourage focus of consideration and discussions of the Audit and Governance Committee to provide apolitical, effective oversight, support and challenge for the Council's financial management and the system of internal control. • Include key unit cost information within the performance management framework as a measure of financial performance alongside service delivery outcomes. • Demonstrate the improvements to the capital planning process, gateway reviews and managing the delivery of these projects to reduce the amount of slippage and inform accurate forecasting in 2014/15. 	<p>The Chief Operating Officer will continue to work with the Chairman/Vice-Chairman and the established Officer/Member groups to:</p> <ul style="list-style-type: none"> • develop the role of the Committee; • further develop the approach to agenda planning; • provide an appropriate focus for debate; and • implement the improvement actions agreed in June 2014 in response to the effectiveness self-assessment. <p>The Chief Operating Officer will consider appropriate use of unit costs in performance reports. For example, indicators such as % spending on professional services and £m spending on assets could be included alongside appropriate targets. Financial data, which forms part of the Commissioning Plans, will continue to be analysed and compared during the medium term financial planning cycle.</p> <p>The targets of remaining within a £14m Capital Financing Cap and also to restrict any new external borrowing will stay in place for 2015/16. The approach to the monitoring and management of capital profiling and forecasting will continue to be refined. This will provide a clear distinction between active management to re-profile expenditure and identification of genuine slippage against committed capital schemes.</p> <p>Responsible Officer: Chief Operating Officer Due date: March 2015</p>

Appendix A: Key issues and recommendations

Issue and recommendation	Management response/ responsible office/ due date
<p>Alternative Service Delivery Vehicles</p> <p>As part of its move to become a commissioning council, the Council has challenged the way activities are delivered and explored new ways of delivering activities. Our work on the VFM Conclusion acknowledged the developments in financial control as the Council's alternative service delivery vehicles became operational. We also highlighted that looking forward, the Council is more likely to be subject to the requirement to prepare group accounts</p> <p>Recommendation:</p> <p>Reassess the governance and risk management arrangements for the new ASDVs and the Council's commissioning relationship with them, to make sure that they are operating as intended and they enable the Council to sufficiently identify and address any risks to service delivery or internal controls.</p> <p>The assessment of the scope and application of group accounts requirements should be identified and factored into closedown arrangements.</p>	<p>The Council will continue to:</p> <ul style="list-style-type: none"> • review and develop the governance framework for ASDVs in the light of experience, and as operational arrangements mature, in accordance with the approach set out in the report to Cabinet in March 2014; and • embed quarterly monitoring of the operational and financial performance of its companies, within its usual reporting processes. <p>The development of group accounts will be considered as part of the planning arrangements for the 2014/15 closedown, in particular the resources and training requirements. We will discuss our proposals with the auditors at an early stage.</p> <p>Responsible Officers: Chief Operating Officer and Executive Director Strategic Commissioning</p> <p>Due date: Ongoing</p>
<p>Better Care Fund</p> <p>Another aspect to changing service delivery is the integration promoted through the Better Care Fund. We reported that the initial Better Care Fund plans submitted in April 2014 did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators.</p> <p>Recommendation:</p> <p>Throughout 2014/15, the partners need to work together to develop and apply the plans to integrate care and support services across the county area.</p>	<p>The Council is continuing to develop the Better Care Fund arrangements with its Clinical Commissioning Group partners. Further assessments of progress are being undertaken by the Department of Health. The Council, along with its partners is continuing to develop, discuss and assess progress in line with Department of Health Guidance. More detailed plans are submitted in September 2014.</p> <p>Responsible Officers: Executive Director of Strategic Commissioning and Director Adult Social Care</p> <p>Due date: March 2015</p>

Appendix A: Key issues and recommendations

Issue and recommendation	Management response/ responsible office/ due date
<p>Overall we are satisfied that the Council has adequate arrangements in place to improve efficiency and productivity. We noted the further developments underway in specific areas.</p> <p>Recommendations:</p> <ul style="list-style-type: none"> Review the Data Quality Strategy and the associated measures as part of the Transparency Project to promote the importance of good quality data in effective information governance. Continue to improve procurement arrangements, effectively linking these with contract management and commissioning activities to avoid duplication and maximise savings to be secured. Continue to implement the recommendations arising from the Ofsted inspection and improvement notice regarding the arrangements for the protection of children. 	<p>The current Data Quality Strategy will be reviewed to ensure that it remains fit for purpose. A fundamental review of the Strategy will be undertaken as part of the Council's developing approach to increasing transparency.</p> <p>The Council's Procurement Improvement Plan is being implemented - overseen by the Procurement Board. The work includes a review of Contract Procedures Rules, introduction of Risk Based Sourcing, enhancing the ability of local suppliers to compete for Council contracts. A review of all commissioning activity is scheduled to ensure that the Council is able to maximise the savings and value for money of all contract renewals.</p> <p>Responsible Officer: Chief Operating Officer Due date: March 2015</p> <p>External evaluation, including the Ofsted improvement pilot and Local Government Association Peer Review, has confirmed that good progress has been made in improving safeguarding arrangements for children in Cheshire East. As at the end of March 2014, a significant number of Ofsted and Improvement Notice recommendations have been 'signed off' by the Improvement Board. A new Children's Improvement Plan for 2014-15 has been approved by the Improvement Board to meet the outstanding recommendations. Audit and other activity is also now monitored by the multi-agency Local Safeguarding Children Board.</p> <p>Responsible Officer: Director of Children's Services Due date: The Improvement Notice will not be lifted until the next inspection (unannounced)</p>

Appendix B: Reports issued and fees

We confirm below the fee charged for the audit and provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	205,050	205,050
Additional fee - business rates		1,070
Grant certification fee	26,900	22,501
Total fees	231,950	228,621

There is an additional fee of £1,070 in respect of work on material business rates balances. This additional work was necessary as auditors are no longer required to carry out work to certify NDR3 claims. The additional fee is 50% of the average fee previously charged for NDR3 certifications for unitary authorities and is subject to agreement by the Audit Commission.

The indicative fee for grant work has reduced from that reported in the audit plan to £22,501 to reflect the removal of fees for schemes no longer requiring certification (such as business rates) and also to reflect the removal of council tax benefit from the housing benefit subsidy scheme. The actual fee for grant certification is not yet finalised as this work is not complete. Any proposed amendments will be discussed with the Chief Operating Officer and must also be approved by the Audit Commission.

Fees for other services

Service	Fees £
None	

Reports issued

Report	Date issued
Audit Plan	14 March 2014
Informing the audit risk assessment	18 March 2014
Audit and Governance Committee Updates	28 November 2013 20 January 2014
Emerging Issues Briefings	11 March 2014 13 June 2014
Audit Findings Report	25 September 2014
Certification report	January 2015 (planned)
Annual Audit Letter	24 October 2014



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