

The Audit Plan for Cheshire East Council

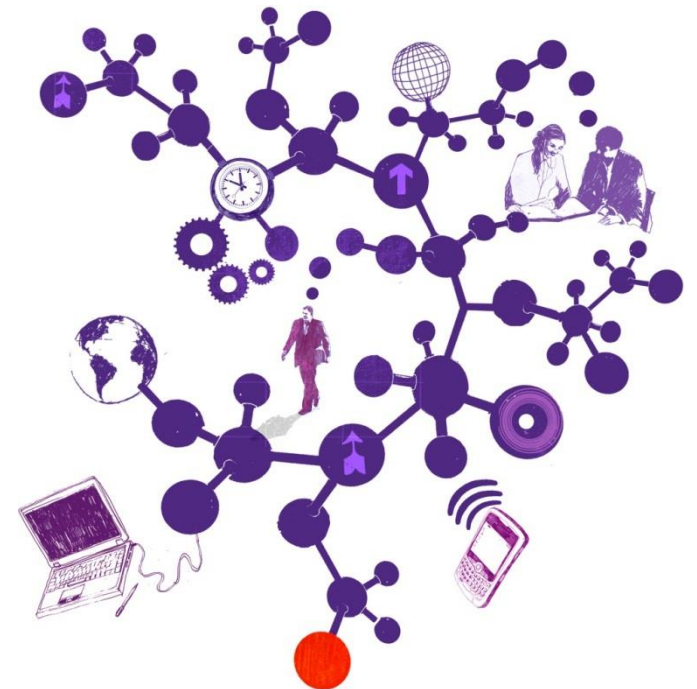
Year ending 31 March 2016

7 March 2016

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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.

The Audit and Governance Committee
Cheshire East Council
Westfields
Middlewich Road
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7 March 2016

Dear Members of the Audit and Governance Committee

Audit Plan for Cheshire East Council for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of Cheshire East Council, the Audit and Governance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

Yours sincerely

Jon Roberts, for and on behalf of Grant Thornton UK LLP

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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.

Challenges/opportunities

1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.
- The latest financial settlement confirms that the Council's Revenue Support Grant is withdrawn by 2019/20. The Council is also uncertain what the impact of business rates retention or changes to New Homes Bonus, will have on its funding levels.

2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- You are involved in plans for devolution across Cheshire and Warrington, through discussion with central government.

3. Integration with health sector

- You contribute to the Better Care Fund in Cheshire as part of a partnership with your NHS partners. Whilst the Council's financial commitment to the Better Care Fund is not in itself financially significant, the Council's work with its partners and developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.

4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.



Our response

- We will review the Council's Medium Term Financial Plan and financial strategy as part of our work on, as part of our work to reach our VFM conclusion.

- We will discuss your plans as part of the local devolution agenda through our regular meetings with senior management and those charged with governance.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council is working with partners, as part of our work in reaching our VFM conclusion.
- We will review the Council's treatment of entries relating to the Better Care Fund in the financial statements.

- We will continue to work with you to identify areas where you can further develop good practice and learn from the experience of other authorities.
- We will carry out more of our testing at an earlier stage of the audit than in previous years.
- We will complete substantive work in our audit of your financial statements by 31 July 2016.

Developments and other requirements relevant to your 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 and associated guidance.

Developments and other requirements

1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.

2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

3. Highways Network Asset

- Although you are not required to identify the Highways Network Asset on your balance sheet until 2016/17, this will then be a significant change to your financial statements and you will need to make preparations and obtain valuations this year.
- We have already discussed the impact of this and your plans to undertake this significant exercise, with the finance team.

4. Joint arrangements

- Local authorities are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- Having established a number of different companies, you have a new planning company, wholly-owned by the council, that has started trading in 2015/16 and will be consolidated into the Group Accounts in 2015/16.
- The joint venture CoSocius is anticipated to come to an end from 1 April 16 with services returning to be provided by one of the two Councils.



Our response

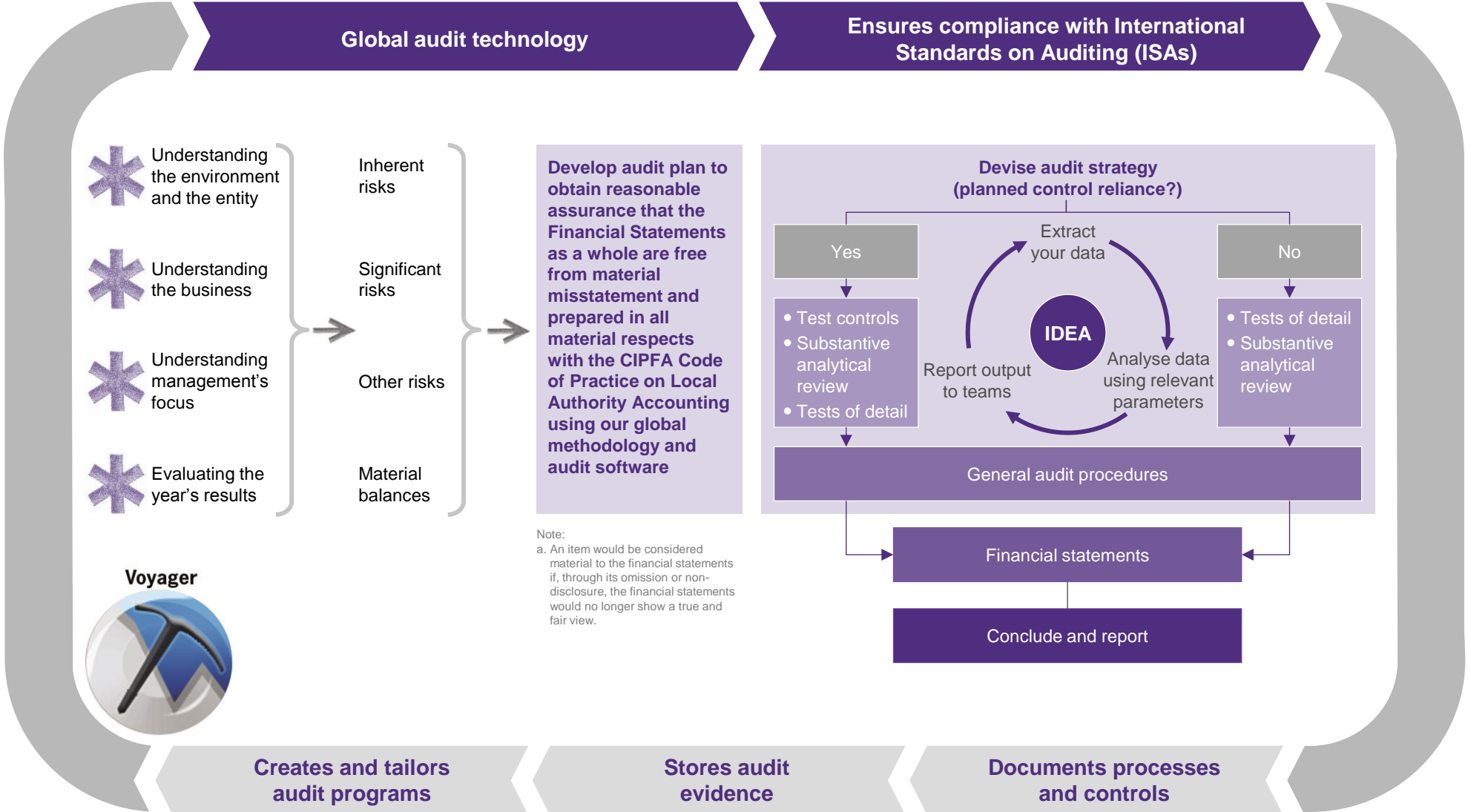
- We have discussed with the finance team the impact of IFRS 13, the financial reporting requirements and the planned approach to valuation of these assets and will continue this dialogue throughout the year.
- We will review your arrangements for obtaining valuations in accordance with IFRS 13.
- We will review your draft financial statements to ensure you have complied with the accounting and disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.
- We invited finance staff to our technical update workshops.
- We will continue to discuss progress with your finance and highways staff.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.
- We will review the arrangements for returning the services provided by CoSocius back to the two Councils. The factors that have led to this decision are also relevant to our wider consideration of partnership working as part of the VFM conclusion.

Our audit approach



Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £12,132k (being 1.8% of prior year audited gross revenue expenditure for the group). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £13,489k (being 2% of prior year unaudited gross expenditure).

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £607k for the group.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where we are not setting a separate materiality threshold, but where we are undertaking more extensive testing:

Balance/transaction/disclosure	Explanation
Cash	Although the balance of cash in hand and at the bank may be immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of the external audit fee in the notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.

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	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>For this Council, we have concluded that the greatest risk of material misstatement relates to the occurrence/ existence of other income and receivables.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheshire East Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual and significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Valuation of property, plant and equipment	The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements • Procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends where appropriate • Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p>Work planned:</p> <ul style="list-style-type: none"> • We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement. • We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

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 (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning. These apply to both the Council and Group financial statements.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of your controls in place over operating expenditure <p>Further work planned:</p> <ul style="list-style-type: none"> • Review the completeness of subsidiary interfaces and control account reconciliations • Obtain an understanding of the accruals process and test a sample of accruals (and other creditors balances) • Cut off testing of a sample of payments after the year end • Test a sample of operating expenses transactions in the year to ensure these are accurately accounted for and in the correct period (part completed)
Employee remuneration	Employee remuneration accruals understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of your controls in place over payroll expenditure • Review the completeness of the payroll reconciliation between the subsidiary system and the ledger (completed to Month 9) • Trend analysis of monthly payroll runs to Month 9 <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of the year-end reconciliation of your payroll system to the general ledger • Update the trend analysis of the monthly payroll runs for the year • Test a sample of senior officers remuneration payments • Test a sample of employee remuneration payments in the year to ensure accurately accounted for and in the correct period (part completed)

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Property, plant and equipment
- Investment property
- Assets held for sale
- Investments (long term and short term)
- Long and short term debtors
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Welfare benefits
- Segmental reporting
- Officers' remuneration
- Leases
- Related party transactions
- Capital expenditure and capital financing
- Financial instruments
- Collection Fund and associated notes
- Group consolidation

Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council has assessed the requirements of *IFRS 10 consolidated financial statements* and *IFRS 11 Joint arrangements* and determined that Group Accounts will be prepared to incorporate the financial results of five wholly owned subsidiary companies (Ansa Environmental Services Ltd, Orbitas Bereavement Services Ltd, Transport Service Solutions Ltd, East Cheshire Engine of the North Ltd & Civicance Ltd) along with CoSocius Ltd as a joint venture. The Council has determined that other subsidiaries & associates (Cheshire East Residents First Ltd, Tatton Park Enterprises Ltd, Cheshire & Warrington Enterprise Ltd) may be excluded from the group accounts on the basis that this does not have a material impact. Investment in other entities such as Everybody Sport and Leisure Trust (ESAR) are not to be consolidated as the Council does not have 'control'. The Council is still in the process of assessing the impact of the District Heating joint venture.

We will consider the Council's assessment of the group boundary and the adequacy of the determination of those entities that are to be included within Group Accounts in 2015/16. The table below considers whether the 'components' to be consolidated into the group accounts are anticipated to be individually significant or whether the risk of material misstatement can be addressed by applying analytical procedures at the group level.

Component	Significant?	Level of response required under ISA 600	Risks identified	Planned audit approach
Wholly owned companies: <ul style="list-style-type: none"> • Ansa Environmental Services Ltd • Orbitas Bereavement Services Ltd • Transport Solutions Ltd • Engine of the North Ltd • Civicance Ltd 	Not individually significant components	Analytical	At this stage we have identified no specific risks of material misstatement. This will be the first year of the operation of Civicance Ltd, however arrangement in place mirror those of the other companies so there no additional risks identified. We will inform the Audit and Governance Committee of any changes to this assessment.	Liaison with the finance team to discuss any complex matters, emerging issues or areas of difficulty. Liaison with the auditors of the Council's companies (also Grant Thornton UK LLP but a separate team). Analytical procedures at the group level - desktop review of the Council's consolidation of the financial results of the subsidiaries into the group accounts, including the adjustments to align accounting policies and remove the transactions between the companies and the Council.
CoSocius Ltd : 50% joint venture interest	Not individually significant components	Analytical	None at this stage but we will be mindful that from 1 April 16 the back office service currently provided by CoSocius will return to the two Councils.	Analytical procedures at the group level - desktop review of the Council's consolidation of the financial results of the joint venture into the group accounts using the 'equity' method.

Value for Money

Background

The Code requires us to consider 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.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

This is supported by three sub-criteria as set out right:

Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"> • Acting in the public interest, through demonstrating and applying the principles and values of good governance • Understanding and using appropriate cost and performance information to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control
Sustainable resource deployment	<ul style="list-style-type: none"> • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities.
Working with partners and other third parties	<ul style="list-style-type: none"> • Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>The Council has historically managed its finances well and has consistently achieved savings targets. It is on course to achieve a balanced budget for 2015/16. However, following the most recent settlement and changes to the expectation of levels of government grant, the scale of efficiencies and savings required has changed. This is affected by:</p> <ul style="list-style-type: none"> • The removal of revenue support grant by 2019/20 but with less certainty about the funding that will arise from business rates retention or the impact of changes to New Homes Bonus • The impact of demand led services, such as the cost pressures experienced in Children and Families services and Adult Social Care. 	<p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>We propose to:</p> <ul style="list-style-type: none"> • review the Council's progress in updating its medium term financial strategy and the reports to Members • review the outturn position for 15/16 and the budget plans for 16/17 and 17/18 • meet with key officers to discuss key strategic challenges and the Council's proposed response.
<p>Whilst the Council's financial commitment to the Better Care Fund is not in itself financially significant, the Council's work with its partners towards the sustainability of adult health and social care services is an important step. Working with partners from different organisations and service areas with potentially conflicting priorities, and particular financial challenges means that projects are increasingly complex and high profile.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will discuss with key officers and review the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p>

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Link to sub-criteria	Work proposed to address
<p>The Local Plan sets planning policies and allocates sites for development. It is the Statutory Development Plan for Cheshire East and is the basis for deciding planning applications. The original plan to guide development up to 2030 was submitted to the Secretary of State for Communities and Local Government in 2014, but required amendment and the Council is still going through this process of independent examination. Without this formal planning framework, the Council is more vulnerable to unplanned development, budget pressures, and this poses a risk to its plans for development sites in the right places and stimulate growth in the local economy.</p>	<p>This links to the Council's arrangements for planning finances effectively to maintain statutory functions and to manage and utilise assets effectively to support the delivery of strategic priorities.</p>	<p>We will discuss with key officers and review reports to consider what progress is being made to get the Local Plan in place and how the Council is addressing the risks and challenges associated with the delay.</p>
<p>The Council commissions services from a range of different delivery models, including companies, the leisure trust and a joint venture for support services that has now been brought to an end. The Council's arrangements to monitor the performance and governance of these 'alternative service delivery vehicles' is important to the effective delivery of its objectives.</p>	<p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>We will discuss with key officers and review the Council's project management and risk assurance frameworks to establish how it is assured that its objectives are being sufficiently met.</p>
<p>The Council have faced some challenges over the robustness of its procurement arrangements and the CEO arranged for a review by Internal Audit. A police investigation into certain related matters is also currently underway.</p>	<p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance.</p>	<p>We will review the findings of Internal Audit's review of procurement arrangements and meet with key officers to discuss how the Council is identifying and managing any risks or perceived weaknesses in its controls.</p>

Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and Annual Audit Letter. We will agree any additional reporting to the Council on a review-by-review basis.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

Results of interim audit work

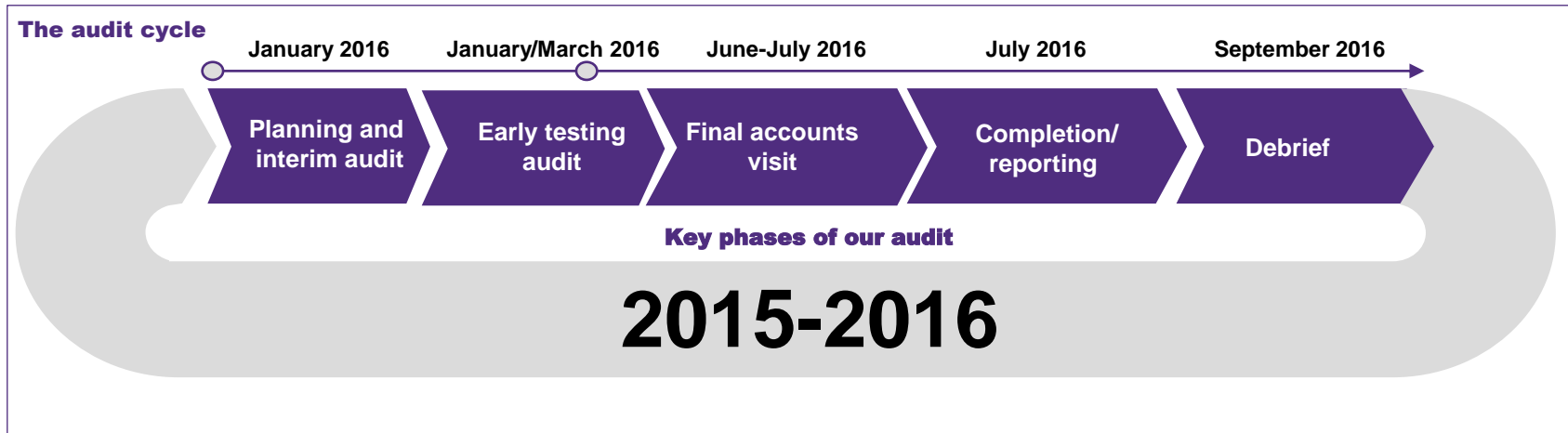
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements and reviewed internal audit's work completed to date on the Council's key financial systems.</p> <p>We will continue to review the work of internal audit as the financial year progresses and as reports are finalised including the specific work relating to the Council's procurement arrangements once this is concluded.</p>	<p>Our review of Internal Audit work has not identified any significant issues impacting on our approach.</p> <p>To date the internal audit service has continued to provide an independent and satisfactory service to the Council and their work contributes to an effective internal control environment at the Council.</p> <p>We will update our assessment throughout the year and report our final conclusion in the Audit Findings Report.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
Review of information technology controls	<p>We are in the process of carrying out a high level review of the general IT control environment, as part of the overall review of the internal controls system. In addition, our IT specialists are currently undertaking specific work in relation to the Oracle system. As part of this review we will follow up the issues raised last year.</p>	<p>Our specialists will complete this testing in March 2016 and we will report any matters in our Audit Findings Report.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in all areas where we consider that there is a risk of material misstatement to the financial statements.	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and to identify any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We have also undertaken detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review.</p>	<p>We have not identified any concerns to date surrounding journals from our documentation of journal controls and testing of journals up to Month 9.</p> <p>Any findings from completion of this work and further testing for the remainder of the year will be reported in the Audit Findings report.</p>
Early substantive testing	<p>We have carried out sample testing of transaction processed to month 9 in the following areas:</p> <ul style="list-style-type: none"> - Other revenues - Operating expenditure - Payroll expenditure - Journals processed 	<p>No issues have been identified to date that we wish to highlight for your attention.</p> <p>We will complete further testing later in March 2016 around deeds, grants and benefit payments and 'top up' testing already undertaken to month 9, through to the year end.</p> <p>Our findings will be reported in the Audit Findings report along with our other audit work.</p>

Key dates



Date	Activity
January 2016	Planning and interim audit
18 – 29 January 2016 7 – 18 March 2016	Early testing audit
17 March 2016	Presentation of audit plan to Audit and Governance Committee
6 June – 22 July 2016	Year end fieldwork
To be arranged	Audit findings clearance meeting with the Chief Operating Officer and the Corporate Manager – Planning and Performance
29 September 2016	Report audit findings to those charged with governance (Audit and Governance Committee)
By 30 September 2016	Sign financial statements opinion

Fees and independence

External Audit Fees

	£
Council external audit	154,590
Grant Certification	16,608
Council audit fees (excluding VAT)	171,198
External audit fees for the wholly owned companies (<i>not yet confirmed for 2015/16 accounts</i>):	6,250
• Engine of the North Limited	11,750
• ANSA Environmental Services Limited	6,250
• Orbitas Bereavement Services Limited	6,250
• Transport Service Solutions Limited	6,250
• Civicance Limited	
External audit of CoSocius Limited (Cheshire East Council has 50% ownership)	13,500
Total audit fees (excluding VAT)	221,448

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.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

Fees for other services

Audit related services	£
Reasonable assurance report for teachers pension return (November 2015)	4,800
Reasonable assurance report for Local Authority Major Transport Scheme return	TBC
Non audit related services	£
Employment taxes helpline service August 2015 – January 2016	1,250
Additional services provided to the Cheshire East Companies for 2015/16:	
• Tax compliance services for 5 wholly owned companies	7,500
• Tax compliance service for CoSocius	2,300

Grant certification

- Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.
- Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Independence and ethics

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

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 requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (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 Report 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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 issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
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		✓
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	✓	✓

Appendices

Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

In our Audit Finding Report on the 2014/15 financial statements, we agreed a number of recommendations with management. Progress against these recommendations is shown below.

Rec No.	Recommendation	Priority	Management response on progress
1	It is recommended that the Council reviews its personal declaration forms and guidance to emphasise that the declaration in respect of related parties should include all Board responsibilities, including those with the wider group entities.	Low	The Council will review the personal declaration forms and associated guidance to ensure all Board responsibilities are included. March 2016
2	Our review of the IT control environment at the Council and CoSocius (where appropriate) identified potential risks relating to: <ul style="list-style-type: none"> The segregation of user roles within the Oracle system Inappropriate access to business process controls And in areas including system administration and privileges, access rights, audit logging and password controls. The Council should ensure the necessary improvements are made to strengthen controls in these areas. 	Medium	The Council has agreed the following responses with CoSocius. CoSocius will produce assurance reports on: <ul style="list-style-type: none"> •Assignment of privileges per individual (grouped by organisation hierarchy) •Number of staff with access to processes tabs (also known as AZN •Menus) •Self-Assigned Privileges (Quarterly) Cheshire East staff will be notified as to incorrect privilege levels or practices. Where this highlights any CoSocius staff they will undertake changes to correct privilege levels or practices. The Council will ensure the necessary improvements are made to strengthen controls in these areas Ongoing



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