

# The Audit Findings for Cheshire East Council

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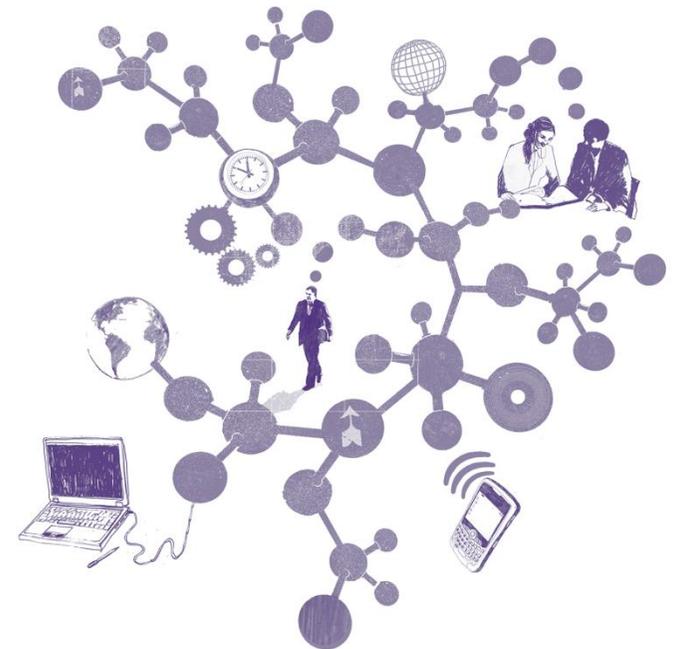
**Year ended 31 March 2016**

19 September 2016

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20 September 2016

### **Audit Findings for Cheshire East Council for the year ending 31 March 2016**

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Cheshire East Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with the Head of Finance and Performance.

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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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 sincerely

Jon Roberts

**Chartered Accountants**

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# Section 1: Executive summary

**01. Executive summary**

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## Purpose of this report

This report highlights the key issues affecting the results of Cheshire East Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 7 March 2016.

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

- obtaining and reviewing the management letter of representation
- review of revised version of the Annual Governance Statement
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts.

We received an initial draft of the financial statements and accompanying working papers at the commencement of our work, in June. At that stage, the draft accounts did not include the cash flow statement, the financial statements and supporting notes for the Group and the narrative report. The full financial statements were then provided as these were published for public inspection on 30 June. We had agreed to flex our programme of audit work to accommodate this.

## Key audit and financial reporting issues

### Financial statements opinion

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

We have identified one adjustment affecting the group and Council's reported financial position (details are recorded in section two of this report). The draft financial statements for the year ended 31 March 2016 recorded total comprehensive income and expenditure for the group of £148,641k (net income position); the audited financial statements show net income of £147,249k.

This change is primarily driven by changes made to the NDR provision for appeals, where an error in the calculation caused the estimate for the collection fund as a whole to be understated by £3,613k. The impact of this is far reaching, throughout the collection fund, all the primary statements and several supporting notes. It also impacts upon the Council's debtor/creditor balances with counterparties. The impact on reserves affects the earmarked reserves only.

We have also recommended a number of adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

The Council has made progress in drawing forward its closedown timetable, in readiness for the earlier deadline that will apply for 2017/18. This reflects your continued efforts to improve your closedown arrangements and the quality of your working papers. We have worked with you throughout the year, to support you in these improvements. There is more to be done to ensure that a full set of draft statements can be prepared at this earlier stage.

The requirements for accounting for the Highways Network Asset will take effect in 2016/17 and will bring a new complexity to the preparation of the financial statements. We will continue to work with the Council to prepare for this.

### Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- whether the Narrative Report meets the requirements of the CIPFA Code and is consistent with the audited financial statements or our knowledge of the Group and the Council
- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

We raised no significant issues in performing our review in these areas.

## Controls

### Roles and responsibilities

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

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

This includes our findings in relation to the Council's IT controls where we have identified a number of areas where these can be further strengthened. Further details are provided within section two of this report.

### **Value for Money**

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

### **Other statutory powers and duties**

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

### **Grant certification**

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2016. We will report the outcome of this certification work through a separate report to the Audit and Governance Committee.

### **Delay in certification of completion of the audit**

We have determined that we cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2016 in accordance with the requirements of the Act and the Code until the Police investigation involving the Council reaches its conclusion.

### **The way forward**

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Operating Officer and the finance team.

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

### **Acknowledgement**

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

**Grant Thornton UK LLP**  
September 2016

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## Section 2: Audit findings

01. Executive summary

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# 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 we reported in our audit plan, we determined overall materiality to be £12,132k (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have modified this to reflect the outcome of the draft financial statements, to £11,896k, (applying this same level to the Council and the group financial statements).

We 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 accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £595k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we identified the following items where we are not setting a separate materiality threshold, but where we are undertaking more extensive testing to reflect the interest in these disclosures. These remain the same as reported in our audit plan.

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	Public interest in these disclosures and the statutory requirement for them to be made, means that they are considered to be material by nature.
Disclosure of the external audit fee in the notes to the statements	

# Audit findings against significant risks

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

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<p>Our audit work on tax revenues, grant income and other revenues has not identified any issues in respect of revenue recognition that would require us to reassess this rebuttal.</p>
2.	<p><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<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 unusual and significant transactions</li> </ul>	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

# Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p><b>Valuation of property, plant and equipment</b></p> <p>The Council re-values 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/ fair value.</p> <p>This valuation represents a significant estimate by management in the financial statements.</p>	<ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate</li> <li>• Review of the competence, expertise and objectivity of any management experts used</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements</li> <li>• Procedures to confirm the reasonableness of the proposed revaluations, including reference to national trends where appropriate</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management have satisfied themselves that these are not materially different to current/fair value.</li> </ul> <p>We have also considered the changes brought about by the implementation of IFRS 13 for the 2015/16 financial statements which require the Council:</p> <ul style="list-style-type: none"> <li>• to include surplus assets within property, plant and equipment in the financial statements at fair value, as defined by IFRS13</li> <li>• to apply the basis on which fair value is defined for investment property, which is also different to that used in previous years</li> <li>• to meet the disclosure requirements required by IFRS 13.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our audit work has not identified any significant issues.</p>

# Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability as reflected in its balance sheet, represent significant estimates in the financial statements.</p>	<p>We identified and assessed the controls put in place by management to ensure that the pension fund liability is not materially misstated. We also:</p> <ul style="list-style-type: none"> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>• gained an understanding of the basis on which the IAS 19 valuation was carried out</li> <li>• carried out procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>• reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p>In addition we considered the specific changes that the Council has made to its pension arrangements relating to its wholly owned companies. During the year the Council has moved to a pass through agreement which is effective from 1 April 2015. This agreement replaces the previous arrangements whereby the companies had been allocated a share of the pension assets and liabilities. As a result of the new pass through agreement, the subsidiaries that had operated in the prior year (ANSA, Orbitas and TSS) transferred their pension assets and liabilities back to the Council as at 1 April 2015 . The Council now specifies a fixed rate of employer contributions payable by the wholly owned companies (including those companies operational for the first time in 2015/16) to the Cheshire Pension Fund. This means that the companies account for these contributions as though they were as a defined contribution scheme ie an expense for the year and the Council accounts for the assets and liabilities related to the scheme.</p> <p>Although the financial impact upon the Council's accounts of the 'pass through' arrangement is not material to the Council, this is an important change that will continue to have an impact into the future and so required specific audit consideration. We therefore:</p> <ul style="list-style-type: none"> <li>• reviewed supporting documentation to understand the nature of the agreement now put in place with the companies</li> <li>• reviewed the terms of the agreements to confirm that these meet the conditions that effectively transfer actuarial risk to the Council</li> <li>• reviewed the accounting entries as part of the overall checks to confirm the consistency of the pension fund asset and liability and disclosures, with the actuarial report from your actuary.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified in the audit plan.</p> <p>Our specific audit work on the pass through arrangement concluded that the deeds of variation meet the conditions for the scheme to be accounted for as a defined contribution scheme in the accounts of the companies with the Council accounting for the assets and liabilities relating to the scheme.</p>

# Audit findings against other risks

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

Other risks identified in our audit plan	Work completed	Assurance gained & issues arising
<p><b>Employee remuneration</b> Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have completed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented and walked through the controls in place (to confirm our understanding) over payroll expenditure</li> <li>performed trend analysis to identify any unusual variances in pay transactions</li> <li>reviewed the year-end reconciliation of your payroll system to the general ledger</li> <li>tested a sample of employee remuneration payments in the year to ensure accurately accounted for and in the correct period</li> <li>agreed the disclosure of senior officers remuneration to the information from the payroll system (in full rather than sample approach).</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p><b>Operating expenses</b> Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<p>We have completed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented and walked through your controls in place over operating expenditure</li> <li>reviewed the completeness and accuracy of the control account reconciliation between the purchase ledger and the general ledger</li> <li>obtained an understanding of the accruals process and tested a sample of accruals (and other creditors balances)</li> <li>tested a sample of payments after the year end to confirm these were accounted for in the correct period</li> <li>tested a sample of operating expense transactions in the year to ensure these are accurately accounted for and in the correct period.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

# Group audit scope and risk assessment

ISA (UK&I) 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.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Ansa Environmental Services Ltd Orbitas Bereavement Services Ltd Transport Solutions Ltd Engine of the North Ltd Civicance Ltd	Not individually significant components	Analytical	No specific risks	We review 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.  We have liaised with the auditors of the Council's companies (also Grant Thornton UK LLP but a separate team).  We have set out the specific consideration of the pension pass through arrangement at page 12.	Our audit work has not identified any significant issues in relation to the risk identified.
CoSocius Ltd : 50% joint venture interest	Not significant component	Analytical	No specific risks	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.	Our audit work has not identified any significant issues in relation to the risk identified.

# Significant matters discussed with management

	Significant matter	Commentary
1.	Termination benefits	<p>As part of our audit work to review the disclosure of termination benefits reported at note 23 of the financial statements, we examined the record of decisions for those officers receiving a higher value payment.</p> <p>For the three cases examined we have confirmed that the approval requirements set out in the Council's constitution at the time of the decision, were met and documented and that the payments were appropriately justified.</p>
2	On-going police investigation	<p>In late December 2015, a police investigation regarding alleged misconduct in public office was launched. We have discussed the implications of the police investigation with management. We have also met with the Senior Investigating Officer in order to consider the impact of this upon our audit responsibilities.</p> <p>This was highlighted as a risk area affecting the VFM conclusion and we set out the details of this at page 33.</p> <p>Controls and governance in procurement are important elements of the Council's control environment and the Council needs to obtain assurance to identify any further improvements that need to be made in order that it can act upon these.</p> <p>All parties are in agreement that it is important that the internal audit work is completed. We consider that this should now be progressed as a matter of priority.</p> <p>As referred at page 34 we recommend that the Council must engage a suitably independent internal auditor to complete a rigorous and thorough review into the procurement matters.</p> <ul style="list-style-type: none"> <li>• The review should be overseen, directed and reviewed by an auditor who is independent of the Council.</li> <li>• Given that this may ultimately inform the police investigation, the Monitoring Officer, with his line management responsibilities for internal audit, should identify an appropriate internal audit service from another authority who are able to provide the Council with this expertise.</li> <li>• The Monitoring Officer should discuss this with the Senior Investigating Officer and reach agreement with him over the suitability of this appointment, the specific scope of their work and the extent to which the Council's own internal audit team will be involved.</li> <li>• The Monitoring Officer should also discuss with the Senior Investigating Officer, the extent to which any internal audit findings arising from this work may be reported.</li> </ul> <p>We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2016 in accordance with the requirements of the Act and the Code until the Police investigation reaches its conclusion.</p>

# Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
<p><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>Government grants and contributions are recognised in the Comprehensive Income and Expenditure Account when there is reasonable assurance that the payment will be received and conditions will be satisfied.</li> <li>Revenue income is credited when it falls due (when the council provides the relevant goods or services).</li> <li>Interest due to or from third parties in relation to loans and investments, is accrued in full at the year end.</li> <li>The CIES includes the Council's share of the accrued income for council tax and non domestic rates.</li> </ul>	<ul style="list-style-type: none"> <li>The Council's accounting policy for revenue recognition is appropriate under IAS 18 Revenue and CIPFA Local Government Code of Accounting Practice .</li> <li>We have undertaken substantive testing of tax income, grants and other revenues and are satisfied that the Council has recognised income in accordance with its accounting policies</li> <li>Revenue recognition policies are appropriately disclosed</li> </ul>	<p style="text-align: center;">   <b>Green</b> </p> <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p>

**Assessment**

● Marginal accounting policy which could potentially attract attention from regulators  
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● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient



# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	The Chief Operating Officer, as the Council's s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. The rationale for this was set out in the 'Informing the Risk Assessment' reported in March 2016. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 green
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	The Council's accounting policies are appropriate and consistent with previous years. The Council have made a small number of amendments to enhance these disclosures.	 green

**Assessment**

## Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Governance Committee who confirmed there to be no material fraud. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Council, including specific representations in respect of the Group.</li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We obtained positive direct confirmations from PWLB, and other banks for loans and investment balances.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. We highlighted some improvements to disclosures in our review of the initial draft accounts and the Council addressed these in the financial statements that were then placed on deposit on 30 June 2016. These and other amendments identified from our audit work are set out at pages 24-25.</li> </ul>

## Other communication requirements continued

	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<p>We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit</li> <li>• The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Group and the Council acquired in the course of performing our audit, or otherwise misleading.</li> </ul>
8.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £350 million we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>That work will take place when the Council are able to provide the updated consolidation pack for examination (planned for week commencing 5 September). We will bring any matters arising from our review to the attention of the Audit and Governance Committee.</p>

# Internal controls

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

Our audit included consideration of internal controls 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. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 13. We also assessed the controls relating to housing benefits, before concluding that this area of expenditure did not represent a risk of material misstatement. Our work on property, plant and equipment and the pension liability, also considered the Council's processes and controls to obtain appropriate valuations.

As the Council uses Oracle which is an inherently complex financial system, our information systems specialists completed an annual review of the controls operating in the Council's Oracle based IT systems, liaising with the Council's service provider.

The matters that we identified during the course of our audit are set out in the table below. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		<p>Our review of the IT control environment at the Council and the IT service provider, identified potential risks relating to:</p> <ul style="list-style-type: none"> <li>• the segregation of user roles within the Oracle system</li> <li>• default passwords retained for some system administrator and roles and other high risk accounts</li> <li>• access to business process controls, a known system flaw that can be used to extend the users access</li> <li>• users with access to critical functions</li> </ul> <p>These weaknesses can result in an increased risk that inappropriate postings can be made and may go undetected.</p> <p>The comprehensive review has also resulted in recommendations in areas including system administration and privileges, access rights, best use of security reports and password controls.</p>	<p>The Council should ensure the necessary improvements are made to strengthen controls in these areas.</p> <p>Our specialists have provided a detailed schedule of matters arising and recommendations to which management have provided a response.</p>

**Assessment**

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

# Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
<p>Error in the underlying calculation of the provision for business rate appeals led to the total provision being understated by £3,613k.</p> <p>This impacts upon the <b>collection fund statement</b> entry for 'provision for appeals' and so effects the business rate deficit for the year and the allocation of these elements of the collection fund between the Council, central government and the Cheshire Fire Authority. This amendment also affects the primary statements (both Council and group statements) and supporting notes:</p> <ul style="list-style-type: none"> <li>• Provisions and CIES (taxation and non specific grant income) for the impact on the Council's share of NDR income</li> <li>• Creditors and debtors – for the balances with the other parties</li> <li>• CIES (taxation and non specific grant income), creditors, earmarked reserves – for the impact upon the levy payable to the business rate pool</li> </ul> <p>The cash flow is also amended to reflect these movements in the other areas of the accounts.</p>	1,771	(1,771)	
		(1,843)	
		1,843	
	(379)	379	
<b>Overall impact</b>	<b>£1,392</b>	<b>£1,392</b>	<b>£1,392</b>

## Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
<p><b>Provision</b> The audit review of the items included as provisions indicates that several balances do not meet the requirements of IAS37 that there is a present obligation as result of past even, that payment is probable and that reasonable estimate can be made. In some cases, where the payment does not seem to be probable, and in others, where there was not a liability as a result of past event - but where the balance should instead be accounted for as a transfer to an earmarked reserve. On this basis we consider that provisions are overstated by £626k and that these balances should be held as reserves.</p>	626	(626)	The Council will carry out a review of all provision balances to ensure that all those retained in future sufficiently meet the requirements of IAS 37. It is proposed that this review takes place in 2016/17. The balances referred here are considered to be immaterial to the overall position reported in 2015/16.
<b>Overall impact</b>	<b>£626</b>	<b>(£626)</b>	

## Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit and which were either addressed in the draft statements that were placed on deposit for public inspection on 30 June 2016 or have been reflected in the final set of financial statements. The Council has also made improvements to respond to other minor points.

Account balance	Adjustment type	Value £'000	Impact on the financial statements
1 Cash flow statement	Disclosure and misclassification		The initial draft accounts presented for audit did not include a cash flow statement because the Council was liaising with CIPFA to address some difficulties with the tool used to produce this. The cash flow statement was then included in the financial statements published at the end of June. Audit work identified some further classification changes and adjustments within the underlying calculations that have now been corrected.
2 Notes to the group statement of accounts	Disclosure	various	Note 1 – Correction to prior year values Note 6 – correction to disclosure of external audit fees to include fees for CoSocius and the Council's fees, along with the wholly owned companies Note 8e – amendment to profits from wholly owned subsidiaries and losses of joint venture
3 Investment properties (originally at note 7)	Disclosure removed	6,119	Since the balance of investment properties is immaterial, the Council has removed the lengthy disclosure note to avoid cluttering the accounts with unnecessary detail.
4 Financial instruments (note 7)	Disclosure	various	The financial instrument disclosures were amended to: <ul style="list-style-type: none"> <li>• correct the underlying error in the calculation of fair value of lease receivables</li> <li>• allocate the carrying value of lease receivables between current and long term balances</li> <li>• change the disclosure of the hierarchy levels reported for PFI and leases to 'level 2' on the basis that there are no unobservable inputs, within these calculations.</li> </ul>
5 Debtors (note 9) Creditors (note 11)	Misclassification	3,600	The Council has identified a misclassification of £3.6m for sums due to the Department for Work and Pensions (being the net position for housing benefit and discretionary housing payments) that had been accounted for as a negative debtor rather than as a creditor

## Misclassifications and disclosure changes

	Account balance	Adjustment type	Value £'000	Impact on the financial statements
6	Provisions (note 12)	Disclosure		Amendments to group some items together and reduce unnecessary detail.
7	Pooled budget (note 35)	Disclosure		Improvements to better meet the disclosure requirements of IFRS12: to explain the judgements over control of the funds and the Council's part in the BCF and to focus on material information by removing unnecessary detail.
8	Contingent liabilities (note 36)	Disclosure		Reassessed and removed information no longer considered relevant.
9	Critical Judgements (note 39)	Disclosure		<p>Revised to remove unnecessary background information and to focus on describing the Council's critical judgements in applying accounting policies relating to group consolidation, schools and the PFI scheme.</p> <p>Additional disclosure included here to meet the requirements of the Code to provide the numbers of schools in each category of maintained schools.</p>
10	Collection fund	Disclosure		<p>The collection fund disclosures were amended to:</p> <ul style="list-style-type: none"> <li>• include narrative to explain the purpose of the collection fund</li> <li>• explain the pooling arrangement with the Greater Manchester Authorities (note 4)</li> <li>• correct the allocation of the council tax surplus where disclosures in respect of police and fire were stated the wrong way round (collection fund revenue account)</li> <li>• correct the composition of the council tax between police and fire, where headings were the wrong way round (note 5)</li> </ul>

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## Section 3: Value for Money

01. Executive summary

02. Audit findings

**03. Value for Money**

04. Fees, non-audit services and independence

05. Communication of audit matters

## Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that 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.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.*

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

## Risk assessment

We carried out an initial risk assessment in February 2016 and identified the following significant risks, which we communicated to you in our Audit Plan dated 7 March 2016.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

### **Significant qualitative aspects**

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements which included:

- Council's progress in updating its medium term financial strategy, the outturn position for 15/16 and the budget plans for 16/17 and 17/18
- the arrangements for health and social care integration
- the progress to reach an agreement on the Local Plan
- the Council's arrangements to monitor the performance and governance of these 'alternative service delivery vehicles
- how the Council is identifying and managing any risks or perceived weaknesses in its controls over procurement.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 29 to 34.

### **Overall conclusion**

Based on the work we performed to address the significant risks we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

In reaching our conclusion we have regard to the information available to us at this time. However there is a police investigation underway and for this reason we will not issue our certificate to bring the audit for 2015/16 to a formal close.

### **Recommendations**

We discussed findings arising from our work with management and have agreed specification recommendations as follows.

As set out at page 15 we recommend that the Council must engage a suitably independent internal auditor to complete a rigorous and thorough review into the procurement matters, liaising appropriately with the Police Senior Investigating Officer on the scope and reporting implications.

Management's response to these can be found in the Action Plan at Appendix A.

## Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment. We have identified no further risks through our ongoing review of documents and discussions with management.

Significant risk	Work to address	Findings and conclusions
<p><b>Planning finances</b> 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"> <li>• 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</li> <li>• The impact of demand led services, such as the cost pressures experienced in Children and Families services and Adult Social Care.</li> </ul>	<p>We reviewed the Council's progress in updating its medium term financial strategy, the outturn position for 15/16 and the budget plans for 16/17 and 17/18. We reviewed reports to members and met with key officers to discuss key strategic challenges and the Council's proposed response.</p>	<p>The Council has a good track record of achieving its financial plans. In 2015/16 the Council reported a modest underspend of £0.5m against its net revenue budget of £246.6m.</p> <p>The Council continues to hold a general fund reserve of £13m, only slightly above the level planned in the 2015/18 reserves strategy. Earmarked reserves have increased by £4.8m, reflecting the use of the earmarked reserves to support service spending and new sums set aside. The overall increase is mainly attributed to the approval of allocations to earmarked reserves for 'Enabling Transformation', 'Financing' and 'Business Rates'.</p> <p>The Corporate Plan 2016-2020 sets out five clear residents based outcomes, underpinned by a sixth outcome based on a responsible and efficient way of working. The Corporate Plan has formed the basis for developing proposals within the Medium Term Financial Strategy (MTFS). The Council has an rolling business planning process and timetable for the update of the MTFS through key stages to set the parameters, prepare business cases and proposals and engage in early consultation. This leads through to the release of the pre budget report in October, providing members and other interested parties with a longer timescale to review and engage in the consultation, well before the budget and associated tax base needs to be approved in February of each year.</p> <p>In February 2015, the Council had identified that it needed to deliver recurrent savings of £13m for 2016/17 and then additional savings of £10.2m in 2017/18. The budget setting process for 2016/17 has moved the Council from this position to a balanced budget for the year. Measures included an increase in council tax of 3.75% (following on from a council tax freeze for five years), savings and efficiencies and a mix of specific policy proposals for each service. The Council also received temporary transitional grant support which it has earmarked to fund 'Invest to Save' schemes, initiative to redesign the way services are provided and reduce costs in the longer term.</p> <p>The Council continues to face deficits in its revenue budget for 2017/18 and 2018/19. As the Council progresses through its planning cycle it further refines the financial assumptions, flexibility in council tax and business rates, its reserves strategy and the options for service delivery. It is working toward preparing an efficiency plan to enable the authority to secure the 4-year fixed funding deal offered by Central Government.</p> <p>The Council has demonstrated a robust planning process, which together with the quality of reporting and scrutiny, means it is well prepared to tackle the financial risks that face it in the medium term.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></p>

Significant risk	Work to address	Findings and conclusions
<p><b>Health and social care integration</b></p> <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>We reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council was identifying, managing and monitoring these risks.</p>	<p>The Better Care Fund (BCF) partnership arrangement has been established through a formal Section 75 agreement between the Council and Eastern Cheshire Clinical Commissioning Group (CCG) and with South Cheshire Clinical Commissioning Group which provides a sound basis for partnership working and delivery of the £23.9 million BCF for 2015/16.</p> <p>The partnership has established a governance framework that includes a Joint Commissioning Leadership Team and its sub group - Better Care Fund Governance Group. Cheshire East Health and Wellbeing Board is responsible for the ongoing oversight of the delivery of the Better Care Fund plan and whilst not a signatory of the s75 partnership agreement, it has a role in gaining assurance that partners are collectively working together to deliver the plan, implement the national conditions and improve the associated performance measurements.</p> <p>Implementing the BCF in Cheshire East is a further step in bringing health and social care closer together but this needing to work with the wider Caring Together and Connecting Care pioneer programmes which began in 2014. A key achievement in 2015/16 of the pioneer programmes was the work to deliver an integrated digital care record which went live in April 2016. Other BCF schemes have been more challenging, for example the 'integrated community teams' was not implemented on time. The year end report notes that the BCF has forced some difficult issues to be discussed and addressed but that this improved working between health and social care is at a individual level rather than as a whole system wide approach.</p> <p>These arrangements provide a platform for the progress required to be made as part of the Cheshire and Merseyside footprint for the ' Sustainability and Transformation Plan'(STP), through which partners must describe how fully integrated health and social care systems will be achieved by 2020.</p> <p>The Cheshire health economy as a whole continues to face significant financial challenges and there is more to do to deliver sustainable services across health, wellbeing and social care for Cheshire. The year end BCF submission of the Health and Wellbeing Board notes that as resources become more scarce, the willingness of partners to share risks has diminished. The STP requirements and the financial and operational pressures mean that partners need to revisit plans and aspirations and ensure that their arrangements are robust if they are to deliver the required transformation and meet performance and efficiency targets.</p> <p>Overall we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for working effectively with its partners as part of the steps towards the sustainability of adult health and social care services</p>

Significant risk	Work to address	Findings and conclusions
<p><b>Local plan</b>                      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 was 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>We reviewed the Council's progress to get the Local Plan in place and how the Council is addressing the risks and challenges associated with the delay.</p>	<p>The Local Plan is the Statutory Development Plan for Cheshire East and is the basis for deciding planning applications.</p> <p>Following the suspension of the examination process in 2014, the Council carried out further work to address the issues in the Local Plan Strategy and in August 2015 the local plan Inspector agreed to lift the suspension. There followed a period of additional hearings and the agreement that the next step would be for the Council to prepare a consolidated document which incorporated all of the revisions suggested to date alongside new and amended strategic sites. This document would then be subject to full public consultation.</p> <p>In the meantime, the Inspector provided the Council with further interim views in December 2015. Along with its response the Council provided its timetable for the future progress of examination. Progress was made in line with this timetable and the Council published the proposed changes to the Local Plan Strategy, including changes to policies, supporting text and new and amended site allocations on 4 March 2016 for consultation.</p> <p>Throughout 2015/16 the Council worked to provide a comprehensive set of additional evidence to address the concerns raised by the Inspector in his interim views. Although this process is not yet complete, the subsequent events continue to be in line with the timetable reported to the Inspector.</p> <p>Following consultation in March and April 2016, the proposed changes have been amended accordingly and have now been submitted to the Inspector, along with all the consultation responses. The hearing sessions are due to begin in September 2016.</p> <p>Overall we have sufficient assurance that the Council has made the expected progress towards getting the Local Plan in place.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements for sustainable resource deployment</b></p>

Significant risk	Work to address	Findings and conclusions
<p><b>Alternative delivery models</b>                      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>We reviewed the project management and risk assurance frameworks to establish how the Council is assured that its objectives are being sufficiently met</p>	<p>The Council's arrangements for the management of performance, finance, programmes and contracts contribute to the upholding of key elements of governance arrangements within these providers.</p> <p>The Council's Commissioning Team are responsible for monitoring the revenue budget and overseeing and managing the contractual agreements and services commissioned to external companies set up by the Council.</p> <p>The wholly owned companies operate under the holding company of Cheshire East Residents First (CERF) Limited. The CERF Board met 4 times in 2015/16 and these meetings are attended by the Chairs and Directors of the CERF Board, along with Chairs and Directors of the subsidiary companies. The Board receives presentations on the financial and operational performance of each company and provides scrutiny and challenge.</p> <p>In the main, the reporting by the different companies is sufficiently detailed to trigger challenge and queries around both financial and qualitative performance. We note the further developments that are to take effect in 2016/17 particularly:</p> <ul style="list-style-type: none"> <li>• Engine of the North – where performance information has been limited and past reporting has focussed on progress to secure capital receipts, however a suite of performance indicators are developed linked to the 2016/17 Business Plan and reflecting on the time, costs and value added by the company's activities.</li> <li>• TSSL – where some detailed reporting is undertaken but where we note there are new contract KPIs introduced to the monitoring framework.</li> </ul> <p>Risks around the development of ASDVs and continuous updating of business plans are highlighted within the Council's strategic risk register and subject to continuous monitoring and action.</p> <p>One outcome of the performance monitoring and risk management framework is illustrated by CoSocius being brought to an end. In this case the Council reviewed the performance of the joint venture and assessed that its objectives were not being met and were unlikely to be met in the future without further release of equity. The Council have made the necessary assessment and reached the formal decision, in conjunction with its partner, to end the joint venture and bring the services back in house.</p> <p><b>This risk 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. We concluded that the risk was sufficiently mitigated and the Council has proper arrangements</b></p>

Significant risk	Work to address	Findings and conclusions
<p><b>Procurement arrangements</b>                      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>We met with key officers and Internal Audit to review how the Council is identifying and managing any risks or perceived weaknesses in its controls over procurement.</p>	<p>In order to enhance procurement controls, the Council introduced additional controls for expenditure above £5k to include scrutiny by senior manager and also a programme of checks by IA to confirm that spending was accurate, appropriate, authorised, correctly coded. The testing of the transactions (covered October – December 2014) was published in September 2015, this reached a 'limited assurance' conclusion, and made recommendations to enhance the Council's controls and transparency.</p> <p>Internal Audit reported that a number of whistleblowing referrals were received during 2015/16 that raised concerns around procurement processes. In response, the scope of an internal audit of procurement arrangements was expanded to incorporate the testing of these concerns. This IA work, which included a review covering compliance with contract procedure rules and the use of WARNs (Waiver Approval Record of Non Adherences) was still taking place in late December 2015 when Cheshire Police launched an investigation regarding alleged misconduct in public office. The internal audit work was paused and remains on hold pending the outcome of the police investigations which are ongoing at this time.</p> <p>The Council has put in place improvements to procurement arrangements which include:</p> <ul style="list-style-type: none"> <li>• improvements to the detail contained in the Corporate Contract Register and arrangements to allow an earlier assessment of those services/functions that need to be re-commissioned</li> <li>• consideration by service management teams to better plan ahead for contract renewals and procurement requirements</li> <li>• All WARN forms are reported to the Audit and Governance Committee for review and challenge</li> <li>• Improvements to the processes for the use of WARNs, to ensure that they include appropriate details and make a clear distinction between waivers and non adherence</li> <li>• introduced and strengthened the operation of the Procurement Board, with membership now including the Council's Portfolio Holder for Corporate Policy and Legal Services and involving business managers to encourage engagement and accountability at a lower level</li> <li>• signing up to a framework contract for the procurement of specialist professional services</li> <li>• reduced threshold of £5,000 for the approval of requisitions</li> <li>• Scrutiny of expenditure above £5,000 by Management Group Board.</li> </ul> <p>As part of the Council's efforts to progress improvements to procurement processes, Internal Audit also carried out a review of the Council's contract management arrangements. The recommendations arising from this work cover areas such as contract management training and procedural guidance and actions have been agreed with management.</p>

Significant risk	Work to address	Findings and conclusions
<p><b>Procurement arrangements (continued)</b></p>		<p>We have met with the Police Senior Investigating Officer to determine the potential implications of their investigations on our external audit remit. We have concluded that it is appropriate for us to issue our VFM conclusion but we highlight that this is based on the information that is available to us at this time. We also make a specific recommendation.</p> <p><b>On that basis (and in the context of the guidance in AGN 03) we conclude that the Council has proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.</b></p> <p><b>Recommendation</b></p> <p>In the previous audit we deferred the issue of the certificate until 21 October to enable Internal Audit to provide us with information about their findings. At that time we proposed that we would continue to keep a watching brief on the Council's response to these matters.</p> <p>As highlighted at page 15 (and repeated here for ease of reference), controls and governance in procurement are important elements of the Council's control environment and the Council needs to obtain assurance to identify any further improvements that need to be made in order that it can act upon these.</p> <p>All parties are in agreement that it is important that the Internal Audit work that was paused in December is completed. We consider that this should now be progressed as a high priority.</p> <p>We recommend that the Council must engage a suitably independent internal auditor to complete a rigorous and thorough review into the procurement matters.</p> <ul style="list-style-type: none"> <li>• The review should be overseen, directed and reviewed by an auditor who is independent of the Council.</li> <li>• Given that this may ultimately inform the police investigation, the Monitoring Officer, with his line management responsibilities for Internal Audit, should identify an appropriate internal audit service from another authority who are able to provide the Council with this expertise.</li> <li>• The Monitoring Officer should discuss this with the Senior Investigating Officer and reach agreement over the suitability of this appointment, the specific scope of their work and the extent to which the Council's own Internal Audit team will be involved.</li> <li>• The Monitoring Officer should also discuss with the Senior Investigating Officer, the extent to which any Internal Audit findings arising from this work may be reported , in order to avoid compromising the wider investigation in any way</li> </ul> <p>Managements response to the recommendation is set out in Appendix A.</p>

**Significant difficulties in undertaking our work**

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

**Significant matters discussed with management**

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

**Any other matters**

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

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

01. Executive summary

02. Audit findings

03. Value for Money

**04. Fees, non audit services and independence**

05. Communication of audit matters

We report below our fees charged for the audit and provision of non-audit services. Cheshire East Council has established a series of arms length companies to provide services. The Boards of each of these companies have appointed Grant Thornton UK LLP as their external auditors. The financial results of these affiliates are consolidated into the Council's group accounts in 2015/16. As we are responsible for reporting on the group accounts, it is appropriate to report the fees for audit and other services provided to the Companies, to the Council's Audit and Governance Committee.

### External Audit Fees

	£
Council external audit	154,590
Grant Certification	16,608
<b>Council audit fees (excluding VAT)</b>	<b>171,198</b>
External audit fees for the wholly owned companies	
• Engine of the North Limited	6,400
• ANSA Environmental Services Limited	12,000
• Orbitas Bereavement Services Limited	6,400
• Transport Service Solutions Limited	10,250
• Civicance Limited	6,250
External audit of CoSocius Limited (Cheshire East Council has 50% share)	13,500
<b>Total audit fees (excluding VAT)</b>	<b>225,998</b>

At this stage there are no variations in fees from the proposed Council audit fee (per the audit plan) which is in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). However our work on Whole of Government Accounts and to certify the audit as closed is not complete.

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. 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 PSAA Ltd.

### Fees for other services

<b>Audit related services</b>	£
Reasonable assurance report for teachers pension return (November 2015)	4,800
Reasonable assurance report for Local Authority Major Transport Scheme return 2014/15 submitted May 2016	5,000
<b>Non audit related services</b>	£
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
• VAT work for Orbitas	<b>TBC</b>

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.

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

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## Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

**06. Communication of audit matters**

# Communication to those charged with governance

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

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

## Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by 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 (<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 auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓
Significant 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

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<p>Our review of the IT control environment at the Council and CoSocius (where appropriate), identified potential risks relating to:</p> <ul style="list-style-type: none"> <li>• the segregation of user roles within the Oracle system</li> <li>• inappropriate access to business process controls</li> <li>• and in areas including system administration and privileges, access rights, best use of security reports and password controls.</li> </ul> <p>The Council should ensure the necessary improvements are made to strengthen controls in these areas.</p>	Medium		
2	<p>We recommend the Council consider ways in which it can more accurately estimate the movement on the business rates appeals provision for disclosure purposes, between the amount charged to the provision for appeals subsequently settled and then the additional amount that brings the provision to the required balance for the year end.</p>	Low		

# Appendix A: Action plan

## Priority

**High** - Significant effect on control system

**Medium** - Effect on control system

**Low** - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	<p>All parties are in agreement that it is important that the Internal Audit work that was paused in December is completed. We consider that this should now be progressed as a high priority.</p> <p>We recommend that the Council must engage a suitably independent internal auditor to complete a rigorous and thorough review into the procurement matters.</p> <ul style="list-style-type: none"> <li>The review should be overseen, directed and reviewed by an auditor who is independent of the Council.</li> <li>Given that this may ultimately inform the police investigation, the Monitoring Officer, with his line management responsibilities for Internal Audit, should identify an appropriate internal audit service from another authority who are able to provide the Council with this expertise.</li> <li>The Monitoring Officer should discuss this with the Senior Investigating Officer and reach agreement over the suitability of this appointment, the specific scope of their work and the extent to which the Council's own Internal Audit team will be involved.</li> <li>The Monitoring Officer should also discuss with the Senior Investigating Officer, the extent to which any Internal Audit findings arising from this work may be reported, in order to avoid compromising the wider investigation in any way.</li> </ul>	High		

# Appendix B: Audit opinion

**We anticipate we will provide the Group with an unqualified opinion and value for money conclusion but will not issue our certificate for completion**

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE EAST COUNCIL

We have audited the financial statements of Cheshire East Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Cheshire East Council Movement in Reserves Statements, the Group and Cheshire East Council Comprehensive Income and Expenditure Statements, the Group and Cheshire East Council Balance Sheets, the Group and Cheshire East Council Cash Flow Statements, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Chief Operating Officer (Section 151 Officer) and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Operating Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Operating Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

- present a true and fair view of the financial position of the Authority and Group as at 31 March 2016 and of the Authority's and Group's expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

### Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement is consistent with the Group audited financial statements.

### Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
- we issue a report in the public interest under section 24 of the Act; or
- we make a written recommendation to the Authority under section 24 of the Act; or
- we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

**Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

**Respective responsibilities of the Authority and auditor**

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

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively

**Scope of the review of the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources**

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

**Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2016 in accordance with the requirements of the Act and the Code until the Police investigation into conduct at Cheshire East Council reaches its conclusion.

Based on the information available to us at this time, we are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources..

[Signature]

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

The Colmore Building  
20 Colmore Circus  
BIRMINGHAM  
B4 6AT

[Date]



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