



# The Annual Audit Letter for Cheshire East Council

**Year ended 31 March 2016**

October 2016

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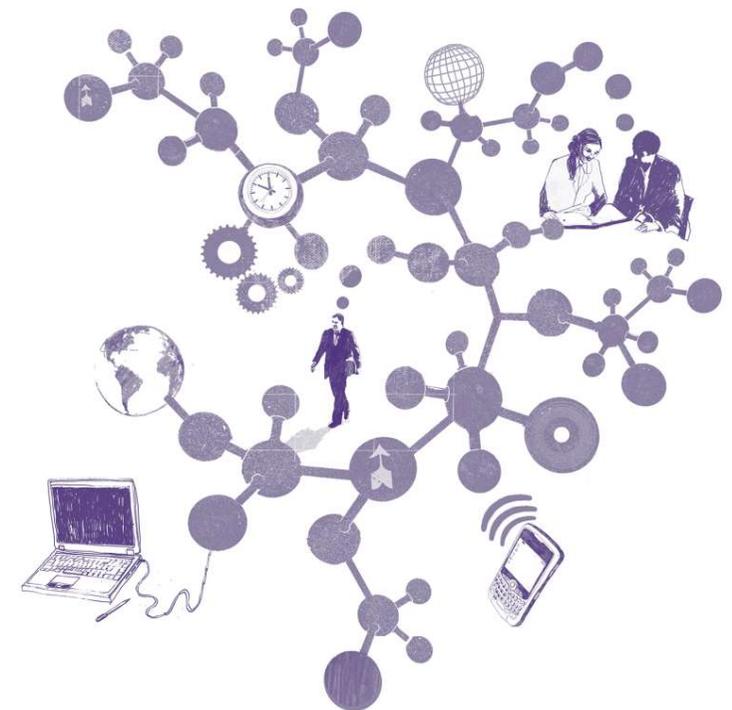
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## **Appendices**

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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cheshire East Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Governance Committee as those charged with governance in our Audit Findings Report on 29 September 2016.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 29 September 2016.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 29 September 2016.

### **Whole of government accounts**

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 14 October 2016.

### **Certificate**

We have determined that we cannot formally conclude the audit and issue an audit certificate for the Council 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.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit and Governance Committee in our Annual Certification Letter.

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## **Working with the Council**

Overall, the Council has continued to work to deliver its statutory responsibilities and this is reflected in our unqualified opinion and value for money conclusion.

During the year, the Council has been subject to a police investigation into a specific procurement issue, which commenced in December 2015 and is not due to be completed for some time to come. We have agreed with the Council that in order to make progress with its own review of procurement arrangements, that it should engage additional support to complete a thorough review into the procurement matters, liaising appropriately with the Police so as to avoid any impact upon their investigation. As this is now part of a police investigation, the formal arrangements will need to be agreed and approved by the police.

We will continue to consider the progress with the investigation in order to determine when we may issue our certificate to formally close the audit for 2015/16.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2016**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £11,896,000, which is 1.8% of the Council's gross revenue expenditure. We used this benchmark as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also highlighted certain areas such as cash, officers' remuneration and exit packages and the audit fee, where we did not set a separate materiality threshold, but where we undertook more extensive testing to reflect the interest in these disclosures.

We set a lower threshold of £595,000, above which we reported errors to the Audit and Governance Committee in our Audit Findings Report.

### **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed
- significant accounting estimates made by management are reasonable
- the overall presentation of the financial statements gives a true and fair view.

We also read the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property plant and equipment</b></p> <p>Property, plant and equipment represents 87% of the total assets of the Cheshire East group. Their value is estimated by property valuation experts.</p> <p>The Council revalues these assets on a rolling basis.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate</li> <li>• reviewed whether the experts used by the Council were sufficiently knowledgeable and independent for us to rely on their work</li> <li>• reviewed the Council instructions to its valuer and the information on the assets it gave to them</li> <li>• reviewed the valuer's report to understand the valuation method used and any key assumptions.</li> <li>• checked that the valuation had been correctly reflected in the Council's asset register and the financial statements</li> <li>• considered how management supported their conclusion that where assets were not revalued during the year, that these are not materially different to current/fair value.</li> </ul> <p>We also considered the changes brought about by the implementation of IFRS 13 which affects the valuation of investment property, surplus assets and requires additional disclosures.</p> <p><b>We did not identify any issues to report.</b></p>
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund asset and liability, as reflected in its group balance sheet, represents a significant estimate in the accounts and comprises 55% of its total liabilities.</p> <p>The values of the pension fund net liability is estimated by specialist actuaries.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• documented and walked through the key controls put in place by the Council to ensure they were designed as expected</li> <li>• reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>• reviewed the information provided to the actuary to calculate the pension fund liability</li> <li>• confirmed the reasonableness of the actuarial assumptions</li> <li>• checked that the Council had correctly made entries in its accounts consistent with the report from the actuary.</li> </ul> <p>We also considered the specific changes that the Council made to its pension arrangements relating to its wholly owned companies. We concluded that the agreements in place with the companies do 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 pension scheme.</p> <p><b>We did not identify any issues to report.</b></p>

# Audit of the accounts

Risks identified in our audit plan	How we responded to the risk
<p><b>Employee remuneration</b></p> <p>The Council's expenditure on its employees in 2015/16 was £231.6 million, which represents 31% of its total expenditure (<i>source: note 18 to the financial statements</i>).</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• documented and walked through the controls in place over payroll expenditure</li> <li>• performed trend analysis to identify any unusual variances in pay transactions</li> <li>• reviewed the reconciliation between the payroll system and 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 and supporting evidence .</li> </ul> <p><b>We did not identify any issues to report.</b></p>
<p><b>Operating expenses</b></p> <p>The Council's operating expenditure in 2015/16 was £410.9 million, which represents 55% of its total expenditure (<i>source: note 1 to the financial statements</i>).</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• documented and walked through the controls in place over operating expenditure</li> <li>• reviewed the completeness and accuracy of the 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><b>We did not identify any issues to report.</b></p>
<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>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• reviewed accounting estimates, judgments and decisions made by management</li> <li>• tested journal entries</li> <li>• reviewed unusual and significant transactions.</li> </ul> <p><b>We did not identify any issues to report.</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 29 September 2016, meeting the 30 September 2016 deadline.

The Council had made progress in drawing forward its closedown timetable. We have worked with the Council throughout the year, to support its improvements in closedown arrangements and working papers and will continue to do so as the finance team make further preparations in readiness for the earlier deadline that will apply for 2017/18.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Audit and Governance Committee on 29 September 2016.

We identified one adjustment which affected the group and Council's reported financial position by £1.4 million, but was limited to earmarked reserves and did not affect the Council's General Fund Reserve. This change reflected an underlying error in the calculation of the accounting estimate required for the provision for appeals to business rates. Due to the nature of the complex accounting entries, the impact of this change upon the financial statements was far reaching, throughout the collection fund, all the primary statements and several supporting notes. Management have corrected for this misstatement along with a number of adjustments to improve the presentation of the financial statements.

We identified one matter that we have asked the Council's management to address for the next financial year. This is to review provisions to ensure that any retained balances are valid liabilities, or whether the balances should be accounted for as earmarked reserves.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider but are discussing with officers how we may work together on improved arrangements next year.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

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

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in September 2016, we agreed with the Council that it was important to make progress with the Council's own review of procurement arrangements. Given the sensitivity of this matter, we recommended that, as proposed by officers previously, the Council take this forward by engaging 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 of this work.

## Overall VfM conclusion

We are satisfied that in all significant respects Cheshire East Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

# Value for Money

**Table 2: Value for money risks**

Risk as set out in the audit plan	Work carried out	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>

Risk as set out in the audit plan	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><b>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.</b></p>

Risk as set out in the audit plan	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>

Risk as set out in the audit plan	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>

Risk as set out in the audit plan	Work to address	Findings and conclusions
<p><b>Procurement arrangements</b> The Council has faced some challenges over the robustness of its procurement arrangements. This was the subject of internal audit review and 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 and 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 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>

Risk as set out in the audit plan	Work to address	Findings and conclusions
<p><b>Procurement arrangements (continued)</b></p>		<p>We met with the Police Senior Investigating Officer to determine the potential implications of their investigations on our external audit remit. We concluded that it was appropriate for us to issue our VFM conclusion but we highlighted that this was based on the information that was available to us at that time.</p> <p><b>On that basis we concluded that the Council has proper arrangements for procuring supplies and services effectively to support the delivery of strategic priorities.</b></p> <p>As part of our Audit Findings report agreed with the Council in September 2016, we agreed with the Council that it was important to make progress with the Council's own review of procurement arrangements. Given the sensitivity of this matter, we recommended that the Council take this forward by engaging 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 of this work. It was also agreed that the Audit and Governance Committee would contribute to this appointment process. As this is now part of a police investigation, the formal arrangements will need to be agreed and approved by the police.</p>

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# Working with the Council

## **Our work with you in 2015/16**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship.

An effective audit – we delivered the accounts audit by the deadline. Our audit team is knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with ongoing support as you continue to put in place improvements in closedown arrangements and working papers. We will continue to work closely with you to make further progress to enhance your own arrangements, and to prepare full financial statements for the earlier deadline that will apply for 2017/18.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure and property plant and equipment.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided audit committee updates covering emerging issues and best practice. We have also shared our thought leadership publications which include:

- Better Together: building a successful joint venture company;
- Knowing the Ropes – audit Committee effectiveness review
- Making devolution work: a practical guide for local leaders
- Turning up the volume: the business location index

Providing training and supporting development – we met with finance staff to discuss the changes to accounting standards and the Code of Practice, and emerging issues and future developments, to support officers involved in the preparation of the Financial Statements. We also provided a briefing paper setting out the new requirements for the Narrative Report, that replaces the explanatory foreword in the financial statements. As well as working with CIPFA to present a series of accounts closedown workshops, we provided specific workshops that focussed on the accounting and governance implications of the better care fund and the complex requirements for the accounting for Highways Network Assets.

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# Working with the Council

## Working with you in 2016/17

### Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016.

The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure. The Council has to develop new accounting records to support the change in classification and valuation of the HNA. This requires considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

The nature of these changes means that finance officers need to work closely with colleagues in the highways department, which for the Council includes the external provider Ringway Jacobs, and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued three briefings which we have shared with the Council's capital team. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development is likely to be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council.

The Council expects that much of the detailed information will be provided by their external contractor. They are using one of the standard toolkits that is endorsed and approved by CIPFA. Nevertheless there is considerable work to be done and it is important that the Council:

- has an implementation plan (in line with LAAP Bulletin 100), monitors progress against this and takes action to keep this on track
- ensures it has sufficient resources and expertise to complete the task
- obtains its own assurance over the processes of Ringway Jacobs
- obtains assurance over the accuracy of the inventory records and particularly how the completeness of those records is being determined.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues. The audit risks associated with this new development and the work we plan to carry out to address them will be reflected in our 2016/17 audit plan.

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# Working with the Council

We will also continue to work with you and support you through our independent role, over the next financial year. Our focus will be on:

- An efficient audit – working with your finance team and taking an active part in your steering group, to support you as you enhance your close down arrangements and adapting our audit approach
- Improved financial processes – we will focus our work on the significant risk area of highways network asset and the high value risk areas of property, plant and equipment, pensions, operating expenses and employee remuneration
- Understanding your operational health – we will focus our value for money conclusion work on the risk areas, which are likely to include the progress made with your medium term financial plans and your work with partners  
Supporting development – through our technical workshops, briefings and our regular liaison with your management and finance team, we will continue to share our insight into emerging issues and the accounting and audit implications
- Support outside of the audit – we can call upon our advisory team at any time to support you. One area that is of interest to you is our analysis tool, CFO Insights, which provides our subscribers with focussed insight on financial performance, socio-economic context and service outcomes, to help you to develop and support financial decisions.

We will also review the progress and the outcome of the Internal Audit work into procurement arrangements. We will liaise with the Police Senior Investigating Officer about the progress of their work and continue to consider the implications upon our audit. We will continue to have regard to this in determining when the audit for 2015/16 may be certified as closed.

# Appendix A: Reports issued and fees

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 (see below)	154,590
Grant Certification (see below)	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>

Our work on Whole of Government Accounts has just been brought to a close and we will consider the impact of this extended work upon the proposed fee.

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

Audit related services	£
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
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
• VAT work for Orbitas - ongoing	TBC

## Reports issued

Report	Issued
Audit Plan	March 2016
Informing the Risk Assessment	March 2016
Audit Committee Update	June 2016
Audit Findings Report	September 2016
Annual Audit Letter	October 2016



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