

The Audit Plan for Cheshire East Council

Year ended 31 March 2017

8 March 2017

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8 March 2017

Dear Members of the Audit and Governance Committee

Audit Plan for Cheshire East Council for the year ending 31 March 2017

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

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

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

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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 look forward to working with you during the course of the audit.

Yours sincerely

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Understanding your business and key developments

Key Challenges and Opportunities

Financial plans

With reductions in government grant, alongside increasing demand for services and increased costs, Cheshire East Council identified that it needs to find an additional £100m by 2020 through savings and additional income.

With increases to council tax, alongside efficiency measures and economic growth, the medium term financial plan presents a balance financial position over the next three years.

Economic growth and development

Working with partners and through the emerging Northern Gateway Partnership, the Council is working to deliver sustainable planned economic growth, including housing and employment, building on HS2 investment and other major infrastructure projects.

The Council is seeking to maximising the benefit of the business rates retention scheme by continuing to pool with Greater Manchester councils and taking part in a growth pilot, - initiatives aiming to retain as much local Business Rates as possible.

Integration with health sector

There are significant changes taking place across the NHS as the NHS Cheshire and Merseyside Sustainability and Transformation Plan is intended to find a solution to a financial gap of over £900m through to 2021. The Council's involvement in this 'system wide' planning, builds on the programmes of "Connecting Care" and "Caring Together."

The financial position in the NHS locally, may impact on the Council, as steps are taken to reduce healthcare spending.

Key performance indicators

Measure	Value
Outturn forecast at quarter 3	£1.7m overspend
Particular pressures are seen in key services of:	Overspends
• Adult social care and public health	£3.2m (3.4%)
• Children's social care	£1.5m (4.7%)

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements, segmental reporting disclosures and a new Expenditure and Funding Analysis note has been introduced. The Code also requires these amendments to be reflected in the 2015/16 comparatives by way of a prior period adjustment.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

You are planning to prepare your draft accounts for 2016/17 to the earlier timescale and we propose to carry out our audit work by the end of July.

You have brought forward your Audit and Governance Committee meeting to reflect these future arrangements.

Highways network asset (HNA)

In November 2016 CIPFA/LASAAC announced a deferral of measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements for 2016/17 (due to delays in obtaining updated central rates for valuations).

CIPFA/LASAAC will review this position at its meeting in March 2017 with a view to implementation in 2017/18. It currently anticipates that the 2017/18 Code will be on the same basis as planned for 2016/17, i.e. not requiring restatement of preceding year information.

Our response

- We will discuss with you your progress in preparing for an earlier closedown and audit by 31 July, and share any good practice or areas of improvement.
- As part of our interim audit we will consider your progress in preparing the adjustments to the prior year comparative figures and then (as part of our opinion on your financial statement)s, in whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code.
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops
- We will review the Council's progress in addressing it's costs pressures and working with partners, as part of our work in reaching our VFM conclusion.

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 concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £11,896k (being 1.8% of gross revenue expenditure). In the previous year, we determined materiality to be £11,896k (being 1.8% of gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £595k.

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

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements.	Due to public interest in these disclosures and to ensure transparency..	£20,000
Disclosure of related party transactions in the notes to the financial statements.	Due to public interest in the transactions with related entities, we have set a materiality level of £20k to inform our audit approach and our reporting to you. We recognise that in compiling the disclosure, the CCG will apply its own assessment of materiality and (as required by IAS24) also have regard to materiality from the perspective of the other party.	£20,000

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
<p>The revenue cycle includes fraudulent transactions</p>	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. 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"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for Cheshire East Council.</p>
<p>Management over-ride of controls</p>	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (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 planned to address these risks.

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

Significant risks identified (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 planned to address these risks.

Significant risk	Description	Audit procedures
<p>Telling the story</p>	<p>CIPFA has been working on the 'Telling the Story' project, to streamline the financial statements and improve accessibility to the user, which has resulted in changes to the 2016/17 Code.</p> <p>The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement, segmental reporting disclosures and a new Expenditure and Funding Analysis and subjective analysis disclosure has been introduced.</p> <p>The change in presentation to the CIES and MIRS being primary statements, is a change in accounting policy and therefore prior year restatement will be required.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • We will document and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements. • We will review the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure. • We will review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS). • We will test the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES. • We will test the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger. • We will test the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements. • We will review the new disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Operating expenses	Year end creditors and accruals are understated or not recorded in the correct period.	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Documented the processes and controls in place around the accounting for operating expenses • Walkthrough of your controls in place over operating expenses. • Testing of a sample of operating expenditure transactions up to month 9 to ensure these are accurately accounted for and in the correct period. <p>Further work planned:</p> <ul style="list-style-type: none"> • Review the completeness of subsidiary interfaces and control account reconciliations • Obtain an understanding of the accruals process and test a sample of accruals (and other creditors balances) • Cut off testing of a sample of payments after the year end • Test a sample of operating expenses transactions month 10 to year end to ensure these are accurately accounted for and in the correct period

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
Employee remuneration	Employee remuneration and benefit obligations and expenses understated	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Documented the processes and controls in place around the accounting for operating expenses • Walkthrough of your controls in place over payroll expenditure • Review the completeness of the payroll reconciliation between the subsidiary system and the ledger (completed to Month 9) • Reviewed trend analysis of monthly payroll runs to Month 9 <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of the year-end reconciliation of your payroll system to the general ledger • Update the trend analysis of the monthly payroll runs for the year • Review the senior officers remuneration disclosures and test a sample of senior officers remuneration payments • Test a sample of employee remuneration payments in the year to ensure accurately accounted for and in the correct period (some testing in this area is underway)

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

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

- Property, plant and equipment
- Investments (long term and short term)
- Long and short term debtors
- Cash and cash equivalents
- Borrowings and other liabilities (long and short term)
- Provisions
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Collection Fund and associated notes
- Group consolidation

Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

The Council has assessed the requirements of *IFRS 10 consolidated financial statements* and *IFRS 11 Joint arrangements* and determined that Group Accounts will be prepared to incorporate the financial results of six wholly owned subsidiary companies (Ansa Environmental Services Ltd, Orbitas Bereavement Services Ltd, Transport Service Solutions Ltd, East Cheshire Engine of the North Ltd, Civicance Ltd and Cheshire Skills and Growth Ltd) consolidated into the parent company CERF which will then be consolidated into the Council's single entity accounts. The Council has determined that other subsidiaries & associates (Tatton Park Enterprises Ltd, Cheshire & Warrington Enterprise Ltd) may be excluded from the group accounts on the basis that this does not have a material impact. Investment in other entities such as Everybody Sport and Leisure Trust (ESAR) are not to be consolidated as the Council does not have 'control'. The District Heating joint venture remained dormant in 2016/17.

We will consider the Council's assessment of the group boundary and the adequacy of the determination of those entities that are to be included within Group Accounts in 2016/17. The table below considers whether the 'components' to be consolidated into the group accounts are anticipated to be individually significant or whether the risk of material misstatement can be addressed by applying analytical procedures at the group level.

Component[s]	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
Wholly owned companies: <ul style="list-style-type: none"> • Ansa Environmental Services Ltd • Orbitas Bereavement Services Ltd • Transport Solutions Ltd • Engine of the North Ltd • Civicance Ltd • Cheshire Skills and Growth Ltd 	Not individually significant components	Analytical	At this stage we have identified no specific risks of material misstatement. This will be the first year of the operation of Cheshire Skills and Growth Ltd, however arrangements in place mirror those of the other companies so there no additional risks identified. We will inform the Audit and Governance Committee of any changes to this assessment.	Liaison with the finance team to discuss any complex matters, emerging issues or areas of difficulty. Liaison with the auditors of the Council's companies (also Grant Thornton UK LLP but a separate team). Analytical procedures at the group level - desktop review of the Council's consolidation of the financial results of the subsidiaries into the group accounts, including the adjustments to align accounting policies and remove the inter group transactions.

Key changes within the group:

- CoSocius Ltd brought back in house 31.3.16 therefore no longer consolidated as a Joint Venture. Accounted for as a shared service
- Cheshire Skills and Growth Ltd new subsidiary from 1.4.16 under the CERF parent company.
- CERF – subsidiaries to be consolidated into CERF and the CERF will be consolidated into the Council's accounts.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of Grant Thornton will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the Grant Thornton audit documentation and meeting with appropriate members of management.

Value for Money

Background

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

The National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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

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

Value for Money (continued)

Risk assessment

Our initial risk assessment is based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we consider:

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

As we identify significant risks as part of our interim audit visit, we will first discuss these with management and communicate these to you. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

Reporting

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

We will include our conclusion in our auditor's report on your financial statements which we propose to issue by the 3 August 2017.

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

Results of interim audit work

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

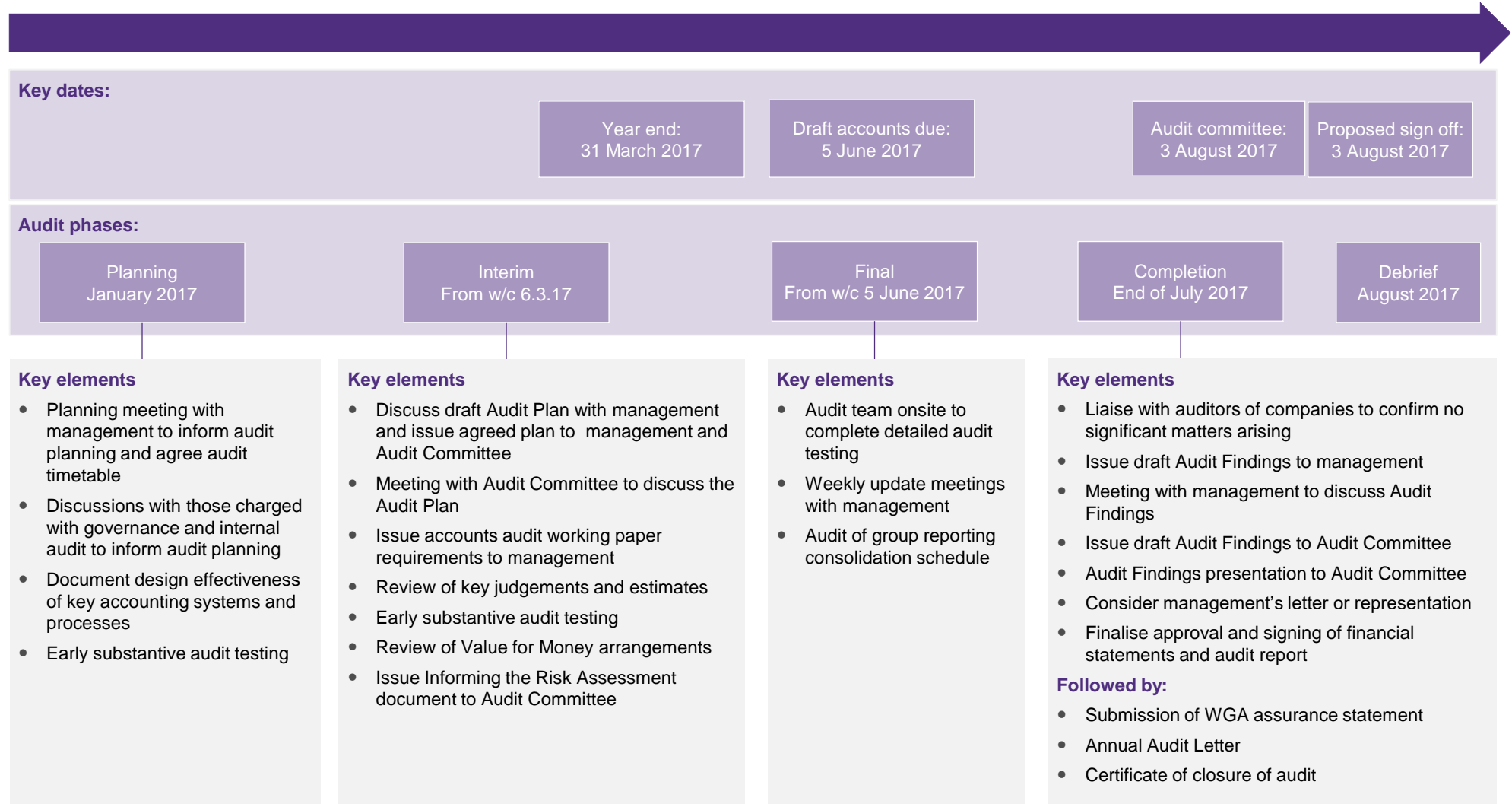
	Work performed	Conclusion
Internal audit	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also reviewed the findings reports issued by internal audit to date. We have not identified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

Results of interim audit work (continued)

	Work performed	Conclusion
Walkthrough testing	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements (employee remuneration, operating expenses and in addition – housing benefits).</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Early substantive testing	<p>We have carried out sample testing of transaction processed to month 9 in the following areas:</p> <ul style="list-style-type: none"> • Operating expenditure • Payroll expenditure <p>We have completed payroll trend analysis to month 9 and reviewed the completeness of the payroll reconciliation between the subsidiary system and the ledger (completed to Month 9).</p>	<p>At this stage, no issues have been identified to date that we wish to highlight for your attention.</p> <p>We will 'top up' testing already undertaken to month 9, through to the year end at our second audit visit later in March 2017.</p> <p>We will also complete testing around property deeds, grant income and housing benefit payments.</p> <p>We also plan:</p> <ul style="list-style-type: none"> • to review the Council's restatement of the accounts to reflect the changes brought about by the 'Telling the Story' project (page 8) • to review the Council's assessment of balances held as provisions. <p>Our findings will be reported in the Audit Findings report along with our other audit work.</p>

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Council audit	154,590
Grant Certification	24,375
Council audit fees (excluding VAT)	178,965
External audit fees for the wholly owned companies <i>(For information, the External audit fees for the wholly owned companies for 2015/16 accounts are shown below, as the fees for 2016/17 have not yet been discussed and agreed.</i>	
	<i>These are the 2015/16 fees</i>
• 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
• Skills and Growth	
• CERF	

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Council and its activities, have not changed significantly
- The Council will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

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 2016/17. 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. The fees have not yet been finalised and so the information reported at this stage reflects the fees for the 2015/16 audit and so may be subject to change. We will reported the agreed fees in our Audit Findings report.

Grant certification

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

Fees for other services

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

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates, technical briefings and updates
- Constructive feedback on your people, your processes and your business plan
- Ad-hoc telephone calls and queries
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. 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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

We draw your attention to the fact that an ex-Grant Thornton employee has a position within the Council, although we consider this fact has had no bearing on our audit judgement or independence.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Cheshire East Council. The following audit related and non-audit services were identified for the Cheshire East Group for 2016/17, consistent with policy on the allotment of non-audit work to your auditors :

Fees for other services

Service	Fees	Planned outputs
Audit related services: <ul style="list-style-type: none"> teachers pensions return transport scheme return 	£4,800 £5,000	We have provided a reasonable assurance report for: <ul style="list-style-type: none"> Teachers Pensions return 2015/16, work completed in November 2016 Local Authority Major Transport Scheme return 2015/16 , in November 2016
Non-audit related services – These fees for 2016/17 are not yet confirmed but the nature of the work is described below.		
Liquidation work relating to Cososius	<i>not yet confirmed</i>	Engaged to assist with the preparation and subsequent execution of the solvent liquidation of the company by way of a members' voluntary liquidation. Fee not yet finalised.
VAT work provided to the Cheshire East company, Orbitas	<i>not yet confirmed</i>	Information to assist Orbitas in responding to a challenge over the VAT status of its bereavement services. We referred to this in our previous annual audit letter. The fee for 2015/16 was £8,500. Any remaining fee for 2016/17 has not yet been finalised.
PLACE analytics/ CFO insights subscription – service provided to Cheshire East council	<i>not yet confirmed</i>	CFO Insights is an online software service offering that enables subscribers to rapidly analyse, segment and visualise all the key data relating to the financial performance of a local authority. The financial data, revenue outturn and budget data for the current year and the previous year (and in time up to 10 years), is provided by CIPFA and the socio-economic data is drawn from Place Analytics. The data is contextualised using a range of socio-economic indicators enabling the LA to understand their relative performance.

The amounts detailed are fees identified to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Communication of audit matters with those charged with governance

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

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓



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