

# The Audit Findings for Cheshire East Council

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**Year ended 31 March 2017**

21 September 2017

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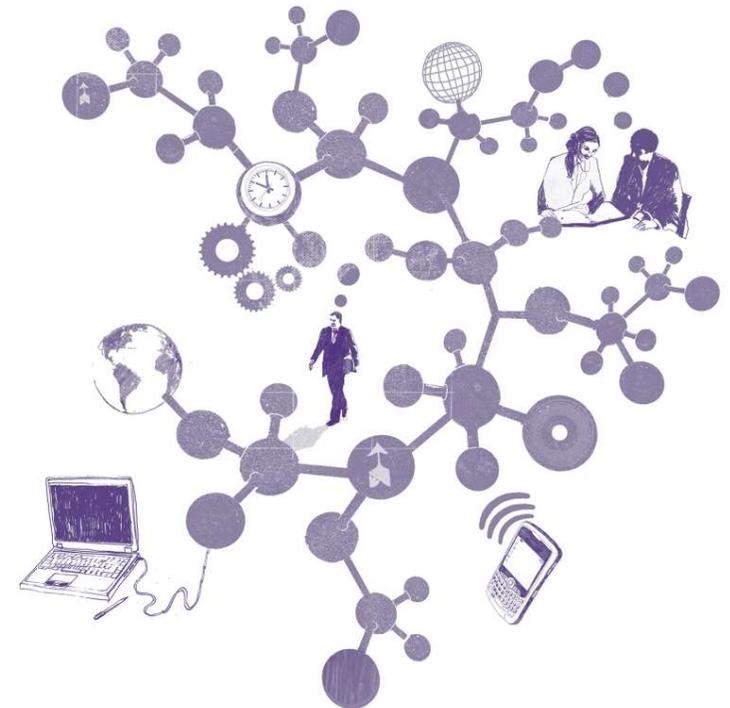
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September 2017

### **Audit Findings for Cheshire East Council for the year ending 31 March 2017**

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 2017. 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or otherwise misleading.

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 year.

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 accounts audit approach, which we communicated to you in our Audit Plan dated 7 March 2016. We have, however, updated our VFM audit planning and an additional risk was recently communicated to members of the Audit and Governance Committee.

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

- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised version of the Annual Governance Statement
- final consideration of the Council as a going concern
- updating our post balance sheet events review, to the date of signing the opinion
- Completing work on the Whole of Government Accounts.

We received an initial draft of the financial statements and most of the accompanying working papers at the commencement of our work, on 5 June.

## Key audit and financial reporting issues

### Financial statements opinion

We have identified no adjustments 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 2017 recorded total comprehensive income and expenditure of £87,582k for the Group and this remains unchanged.

There were however some significant changes affecting both the Group and Council Comprehensive Income and Expenditure Statements:

- We identified a number of changes to the Council's Comprehensive Income and Expenditure Statement (CIES) relating in the main to the underlying accounting treatment of reserves and some internal recharges. The Council agreed to prepare a revised CIES and Expenditure and Funding Analysis and other associated notes, and we have recently completed our detailed review of these new statements and the comprehensive notes that support them.
- On our initial review of the accounts, we raised a number of queries on the draft group financial statements. The Council informed us that it had identified that the group CIES needed to be revised. These statements were then also affected by the significant revisions to the Council's CIES. We were provided with the revised group statements on 29 August.

Further details are recorded in section two of this report. Overall, following these adjustments, the audited financial statements show gross cost of £735,602k and gross income of £723,728k and an overall deficit on provision of services of £11,874k (unchanged)

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

The Council has succeeded in drawing forward its closedown timetable and is now well placed to meet the earlier deadline to prepare its draft accounts that will apply for 2017/18.

### 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 if the Annual Governance Statement and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and Annual Governance Statement we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified 'except for' VFM conclusion. This means that we are satisfied with the adequacy of all other areas of the Council's arrangements for economy, efficiency and effectiveness as defined by the Code of Audit Practice and auditor guidance, with the exception of the following specific area:

During the year, the Council Internal Audit Service has investigated a number of historic weaknesses in the operation of its decision-making arrangements. The findings of these reviews are evidence of weaknesses in the Council's arrangements for acting in the public interest. As such, we concluded that the Council's arrangements for demonstrating and applying the principles and values of good governance to support informed decision-making were inadequate.

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, although we have not issued a certificate of closure to allow us to consider our position further.

## 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 2017. 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 2017 in accordance with the requirements of the Act and the Code until:

- we complete our work on the Council's Whole of Government Accounts
- the Council has completed its internal disciplinary investigations into a number of its chief officers
- we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act.

## 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 Interim Director of Finance and Procurement and the finance team, as appropriate.

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 Interim Director of Finance and Procurement 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 2017

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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 £11,896k (being 1.8% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and modified this to reflect the outcome of the draft financial statements, to £12,401k, (applying this same level to the Council and the group financial statements). Following some significant amendments to the value of gross revenue expenditure, we then reassessed this at the conclusion of the audit to reach a final materiality level of £12,001k.

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 £600k. 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	Materiality level
Disclosure of related party transactions in the notes to the financial statements.	Due to public interest in these disclosures and to ensure transparency. Materiality will be considered on the basis of materiality for the third party.	£20,000
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in the transactions with related entities, we have set a 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&I) 320)

# 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>

"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&I) 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&I) 550)

# 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>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>Our audit work has not identified any significant issues in relation to the risk identified.</p>
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>Our audit work has not identified any significant issues in relation to the risk identified in the audit plan.</p>

# Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5	<p><b>Changes to the presentation of local authority financial statements</b></p> <p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented and evaluate the process for the recording the required financial reporting changes to the 2016/17 financial statements.</li> <li>reviewed 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.</li> <li>reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS).</li> <li>tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES.</li> <li>tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger.</li> <li>tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements.</li> <li>reviewed the new disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our audit review of the draft financial statements and the supporting working papers identified a number of errors in the preparation of the EFA, the detailed EFA note and the CIES:</p> <ul style="list-style-type: none"> <li>EFA did not correctly report the movement to the general fund, which is also required to include earmarked reserves. This accounting treatment meant that entries relating to the transfers to and from earmarked reserves were not appropriately determined.</li> <li>There should be a direct match between the adjustment between funding and accounting basis presented in the EFA, compared to the information presented in note 2 which supports the MIRS.</li> <li>The underlying working papers omitted an adjustment to ensure that the impact of internal recharges was removed to avoid overstating income and expenditure</li> </ul> <p>These are significant revisions with implications throughout the EFA, the detailed EFA note and the CIES. These changes affect both the 2016/17 and 2015/16 comparatives and also impact upon the group accounts, the presentation of the prior period adjustment at note1c and the nature of expenses (segmental reporting) disclosure.</p> <p>The accounts have been amended and we have carried out additional work to audit the revised accounts.</p> <p>The overall deficit on provision of services remains unchanged. However the value of gross expenditure and gross income are each reduced by £28m (expenditure reduced from £754m to £726m and the value of income has reduced from £743m to £714m).</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 testing of a sample of payments made in April and May identified one unrecorded liability of £56,588 relating to 2016/17. Although the invoice is dated early March and the goods were received in 2016/17 the Council did not identify this through the usual mechanisms, as a liability at the year end.</p> <p>Further testing was not carried out to confirm whether this result was isolated. However, if our statistical approach was applied, the projected value, which could be up to £3.6m, is still below our agreed materiality threshold. Therefore, we can emphasise that the Council does not need to adjust the financial statements for this audit projection. We have also highlighted this as an internal control issue at page 21.</p> <p>Our work has not identified any other 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.

On our initial review of the accounts, we raised a number of queries on the draft group financial statements. The Council informed us that it had identified that the group CIES needed to be revised. These statements were then also affected by the significant revisions to the Council's CIES. We were provided with the revised group statements on 29 August.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Wholly owned companies: <ul style="list-style-type: none"> <li>• Ansa Environmental Services Ltd</li> <li>• Orbitas Bereavement Services Ltd</li> <li>• Transport Solutions Ltd</li> <li>• Engine of the North Ltd</li> <li>• Civicance Ltd</li> <li>• Cheshire Skills and Growth Ltd</li> </ul>	Not individually significant components	Analytical	No specific risks	<p>We liaised with the finance team to discuss any complex matters, emerging issues or areas of difficulty.</p> <p>We have Liaised with the auditors of the Council's companies (also Grant Thornton UK LLP but a separate team).</p> <p>We have completed 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.</p>	Our audit work has not identified any significant issues in relation to the risk identified.

## Significant matters discussed with management

	Significant matter	Commentary
1.	Pensions pass through	This year we revisited the Council's accounting arrangements for its defined benefit pensions liabilities with regard to its transferred companies. We were satisfied that the pass through arrangements put in place last year remained appropriate and that the companies should continue to account as a defined contribution arrangement as the Council had determined that actuarial risk had not transferred to the companies.

# 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 & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p><b>Judgements and estimates</b></p>	<p>An authority is required to disclose, the judgements that management has made in the process of applying the authority's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.</p> <p>Critical judgments are set out at note 35 of the financial statements and include the Council's judgements over:</p> <ul style="list-style-type: none"> <li>the assessment of the PFI scheme that determines that it falls within the scope of IFRIC 12 (ie assets and liabilities are recognised on the balance sheet).</li> <li>the consideration of control over maintained schools and the inclusion of their income, expenditure, assets, liabilities, reserves and cash flows in the Council's single entity accounts</li> <li>the treatment of non current assets for foundation and voluntary aided schools and for schools transferring to academy status</li> <li>the assessment of the Council's interests to identify those that fall within the group boundary.</li> </ul> <p>Note 34 provides information about assumptions made about the future, and other major sources of estimation uncertainty. These originally included:</p> <ul style="list-style-type: none"> <li>property valuation</li> <li>pension liability</li> <li>arrears and impairment of doubtful debts</li> <li>business rate appeals</li> </ul>	<p>Our findings from our review of judgements and estimates are:</p> <ul style="list-style-type: none"> <li>We are satisfied that the judgements are appropriate and in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting. The Council have addressed the improvements highlighted in our initial review.</li> <li>Pension liabilities - A firm of consulting actuaries (Hymans Robertson LLP) is engaged to provide the Council with expert advice about the assumptions to be applied when valuing pension liabilities. These assumptions cover areas such as mortality rates, inflation and future increases in salaries and pensions. We have reviewed the assumptions used by the actuary and are satisfied that they are reasonable and do not result in material misstatement of the pension liabilities.</li> <li>PFI – we have compared the Council's accounting entries with our own estimates and are satisfied that the Council's accounting estimates fall within our estimate range.</li> <li>Property valuation – we have considered the work of the Council's valuers to provide an estimate of the value of land and buildings and the associated asset lives (as summarised at page 11).</li> </ul> <p>We highlighted that the disclosure of estimation uncertainty should focus on those areas where there is a risk of material estimation uncertainty. The Council have reconsidered this and concluded that the risk associated with impairment of debt and business rate appeals does not meet this requirement and are removed from the disclosure at note 34.</p>	<p style="text-align: center;"> <b>green</b></p> <p style="text-align: center;">Accounting policy appropriate and disclosures sufficient</p>

**Assessment**  
● Accounting policy which is inappropriate     
 ● Accounting policy appropriate but scope for improved application or disclosure     
 ● Accounting policy appropriate and disclosures sufficient

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p><b>Going concern</b></p>	<p>The Director of Finance and Procurement, as the Council's s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future.</p> <p>The rationale for this was set out in the 'Informing the Risk Assessment' reported in March 2017. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	<p> green</p>
<p><b>Other accounting policies</b></p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>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.</p>	<p> green</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

## 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. The Council have made changes to reflect the matters identified by our audit work and the details of these changes are set out at pages 24-29.</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 provides the updated consolidation pack for examination. We will bring any matters arising from our review to the attention of the Audit and Governance Committee.</p>

# Internal controls

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.

	Assessment	Issue and risk	Recommendations
1.	 <p><b>Deficiency</b></p>	<p><b>IT Audit Findings</b></p> <p>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.</p> <p>Segregation of duties is a fundamental principle of control. It requires that record keeping, custody of assets; authorisation and reconciliation processes are not performed by the same person. We performed a review of the access rights, known as responsibilities, assigned to users within Oracle E-Business Suite. There were several instances of high-risk segregation of duties conflicts identified</p> <p>Our IT audit team also found several other deficiencies in the IT internal controls relating to use of default accounts/responsibilities, users with 'process tab functionality' and databases.</p>	<ul style="list-style-type: none"> <li>• A review of configuration of all responsibilities in use within Oracle EBS should be undertaken. This review should be driven by the business with IT support. We have provided the Oracle system administrator with the detailed outputs of our work to facilitate this. Responsibilities should be redesigned to reduce the number of segregation of duties conflicts within the system (Inherent conflicts).</li> <li>• Where management have decided to accept the risk of the segregation of duties conflicts, this should be formally documented.</li> </ul> <p>Management have reviewed the detailed IT audit report findings and provided a response to confirm the actions to be taken in response to the recommendations made for each deficiency identified in this detailed review.</p>

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

**Assessment**  
 Significant deficiency – risk of significant misstatement  
 Deficiency – risk of inconsequential misstatement

# Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2	 <p><b>Deficiency</b></p>	<p>In our testing of termination benefits disclosed in Note 21, we requested signed approval reports for termination benefits made during the year. In our review of this supporting evidence, we found that the approval reports for two termination packages were not signed by the relevant Portfolio Holder, Director of Finance and Head of HR. The approval reports were however signed the Service Manager, Finance Lead and Head of Service.</p> <p>Management assert the form were signed by the relevant Portfolio Holder, Director of Finance and Head of HR, but that these final copies cannot be located or were not retained. This indicates a procedural weakness in the lack of retention of key council documents: in this case those approving termination benefits, which should have been retained for business purposes.</p> <p>The reports provided do confirm that the amounts of termination benefits disclosed in the accounts are fairly stated.</p>	<p>The Council should ensure that key decisions relating to termination of employment are subject to the authorisation requirements set out in the constitution and that the documentary evidence of this is retained.</p>
3	 <p><b>Deficiency</b></p>	<p>Our audit testing for unrecorded liabilities identified a transaction where although the invoice is dated early March and the goods were received in 2016/17 the Council did not identify this as a liability at the year end, through the usual mechanisms.</p> <p>We consider that this is a lapse in the processes and controls that the Council has in place to identify those transactions where good have been received but not yet paid for at the year end.</p>	<p>The Council should review its procedures to consider how arrangements may be strengthened to reduce this risk of misstatement.</p>

**Assessment**

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

# 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
Creditors understated – audit projection of the value of the error over the population, identified from audit testing for unrecorded liabilities	3,676	(3,676)	This is an audit projection and it would not be appropriate for the financial statements to be amended on this basis. The projected error is immaterial.
<b>Overall impact</b>	<b>3,676</b>	<b>(3,676)</b>	

## Misclassifications and disclosure changes

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 nature of the adjustments made, means that these do not impact on net expenditure and do not impact on the balance sheet. We have described these changes below, along with the amendment made to the notes to the accounts.

The table below summarises the adjustments arising from the audit which have been processed by management. These are reported in the same order as the presentation in the financial statements for ease of reference. The Council has also made improvements to respond to other minor points.

	<b>Account balance</b>	<b>Adjustment type</b>	<b>Value £'000</b>	<b>Nature of the adjustment and impact on the financial statements</b>
1	Narrative report – performance overview	Disclosure		Correction to the budget value reported for the corporate directorate.
2	Movement in Reserves Statements – Group and MIRS Cheshire East Council	Amendment to primary statement		The Code requires that the MIRS reports the total reserves of the authority. Earmarked reserves form part of the statutory general fund and so the general fund balance and the earmarked reserves are now totalled. It is this combined total that is the basis of the reconciliation presented in the revised EFA.
3	Group Comprehensive Income and Expenditure Statement	Amendment to primary statement		The Council provided a revised statement on 29 August. This reflected corrections in the consolidation that the Council had identified, along with the required changes to the Council CIES. Amendments throughout the statement but with no impact on the overall total comprehensive income and expenditure.
4	Group Cash Flow Statement	Amendment to primary statement		<ul style="list-style-type: none"> <li>• Correction to note 1 to report value of group account deficit for the year consistent with the group cash flow statement and the group CIES</li> <li>• Additional disclosure notes to support the material adjustments reported in the cash flow statement</li> </ul>
5	Notes to the Group Statement of Accounts	Disclosure		<ul style="list-style-type: none"> <li>• Revised disclosure of Directors Remuneration to complement the information provided elsewhere for the council’s senior employees.</li> <li>• Revised disclosure of external audit fees (similarly note 22)</li> </ul>

# Misclassifications and disclosure changes

Account balance	Adjustment type	Value £'000	Nature of the adjustment and impact on the financial statements
6 Cheshire East Council CIES	Amendment to primary statement		<p>Statement corrected to reflect the amendments to the EFA and supporting note. These changes affect both the 2016/17 and 2015/16 comparatives.</p> <p>The overall deficit on provision of services remains unchanged. However the value of gross expenditure and gross income are each reduced by £28m (expenditure reduced from £754m to £726m and the value of income has reduced from £743m to £714m).</p> <p>Amendment to the presentation of financing and investment gross income and gross expenditure for consistency with the analysis reported at note 5.</p>
7 Note 1a Expenditure and Funding Analysis  Note 1b Note to the Expenditure and Funding Analysis  Note 1c which shows how net expenditure has been restated	Disclosure		<p>The Council's presentation of the EFA provides a trail from the information reported to members during the year through to the impact upon the general fund and then presents the adjustments necessary to report the CIES in accordance with proper accounting practice. Errors related to the accounting for transfers in reserves and internal charges between different directorates which do not meet the definition of income.</p> <p>EFA and detailed note corrected for both 2016/17 and the 2015/16 comparatives to :</p> <ul style="list-style-type: none"> <li>• report the movement to the statutory general fund, which is required to include both the 'general fund reserve' and also earmarked reserves.</li> <li>• amend the entries relating to the transfers to and from earmarked reserves as these are not part of the EFA and the CIES but are reflected in the MIRS.</li> <li>• reflect consistently the adjustment between funding and accounting basis presented in the EFA compared to the information presented in note 2 which supports the MIRS.</li> <li>• ensure that the impact of internal recharges was removed to avoid overstating income and expenditure.</li> <li>• better reflect other adjustments.</li> </ul> <p>Note 1c amended to reflect the outcome of the changes.</p>

# Misclassifications and disclosure changes

Account balance	Adjustment type	Value £'000	Nature of the adjustment and impact on the financial statements
8 Cash flow statement	Amendment to primary statement	91,904  (7,272)	<p>The cash flow and supporting notes required amendment for consistency with underlying working papers and other areas of the financial statements. The adjustments affected:</p> <ul style="list-style-type: none"> <li>• Adjustment to surplus / (deficit) on the provision of services for non cash movements (increase in creditors at note 14)</li> <li>• Net cash flows from financing activities (other payments from financing activities at note 16)</li> </ul> <p>The overall increase in cash and cash equivalents remains unchanged.</p>
9 Notes to the statement of accounts	Disclosure	various	<p>Detailed disclosure notes removed where balances or transactions are not material:</p> <ul style="list-style-type: none"> <li>• Group income and expenditure reserve</li> <li>• long term - assets held for sale</li> <li>• long term investments</li> <li>• long term debtors</li> <li>• short term investments</li> <li>• short term - assets held for sale</li> <li>• provisions</li> <li>• capital receipts reserve</li> <li>• financial instruments adjustment account</li> <li>• collection fund adjustment account</li> <li>• accumulated absences account</li> <li>• trading operations</li> <li>• leases</li> <li>• capital grants receipts in advance</li> </ul> <p><b>Going forward the Council should ensure that it only includes those disclosures that are material to the financial statement, thereby ensuring that the main messages are not obscured by excessive detail.</b></p>

## Misclassifications and disclosure changes

	Account balance	Adjustment type	Value £'000	Nature of the adjustment and impact on the financial statements
10	Notes to the group statement of accounts	Disclosure	various	<p>The Code requires comparative figures for all amount reported. Comparative figures added to the disclosures for</p> <ul style="list-style-type: none"> <li>• dedicated schools grant</li> <li>• related party disclosures</li> <li>• interest in companies</li> <li>• pooled budgets</li> </ul>
11	Note 6 Taxation and non specific grant income and expenditure	Disclosure	£347,761	<p>The draft accounts included an excessive amount of detail relating to NDR transactions. Amended to aggregate items of a similar nature.</p> <p>Also correction to the value of the impact of the council tax demand on the CIES of £375k. Although the value of the error is relatively low, the underlying entries are complex and impact across the financial statements. In order to avoid any difficulties in 2017/18 the Council needs to carefully review the Code guidance and determine the appropriate journal entries in 2017/18 with agreement between the accountants to ensure that the impact on all areas of the accounts are understood and are as intended.</p>
12	Note 13b Capital Adjustment Account	Disclosure	£30,063	Adjustment to disposal entry on the CAA to separate out the amounts of non-current assets written-off as a loss of control of an Entity to the Comprehensive Income and Expenditure Statement (as it did in the prior year financial statements).
13	Note 27 Capital Expenditure and Capital Financing	Misclassification	£667	Source of finance – amended description from government grant to direct revenue contribution

## Misclassifications and disclosure changes

	Account balance	Adjustment type	Value £'000	Nature of the adjustment and impact on the financial statements
14	Note 26 Defined Benefit Pension Scheme	Disclosure	Various	<p>We identified that there were inconsistencies in the treatment of positive/ negative values on items throughout the pension disclosures, when comparing the relationship between the difference disclosures, the different years and when checked against the actuarial report. The Council has reviewed and corrected this to ensure consistent and appropriate presentation.</p> <p>Amended the value of contributions expected to be made in 2017/18 to reflect the information reported in the actuarial report and to highlight the up front payment to cover the pension deficit contributions for the next three years.</p>
15	Note 28 PFI	Disclosure	£16,782	Additional disclosure of the value of the associated PFI asset and its movement in the year.
16	Note 29 Related party transactions	Disclosure		Several disclosures in the table of relates parties were of values that would reasonably be considered immaterial. These have now been removed to ensure that main messages are not obscured by excessive detail.
17	Note 30 Interest in Other Companies and Entities	Disclosure		Revised presentation to more clearly and succinctly present the key information.
18	Note 33 Events after the reporting period	Disclosure		Additional disclosure of the up front payment made in April 2017 regarding the pension deficit.
19	Note 34 Estimation uncertainty	Disclosure		Disclosure relating to arrears and the impairment of doubtful debt and the business rate appeals are removed since the uncertainty relating to these items is concluded to be immaterial.

## 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	Nature of the adjustment and impact on the financial statements
20	Note 36 Accounting Standards Issued but yet to be Adopted	Disclosure	Narrative	Corrected to reflect the information provided by CIPFA in their updates to the Code.
21	Note 38 Accounting Policies	Disclosure	Narrative	Changes to accounting policies to: <ul style="list-style-type: none"> <li>Refer to the changes introduced by the Code for 2016/17 that constitute a change in accounting policy and require a prior period adjustment</li> </ul>
22	Collection fund	Amendment to supplementary statement	Various	Amendments to the collection fund include: <ul style="list-style-type: none"> <li>Corrections to the presentation of positive/ negative values to ensure consistency within the Collection Fund Statement and the movements on the collection fund and to reflect usual accounting practice of income and a surplus position being reported as (negative) values.</li> <li>Changes to narrative at note 4</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 and identified a number of significant risks, which we communicated to you in our update report to the Audit and Governance Committee on 1 June 2017.

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

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan.

We reported this change in our VFM Update report dated 29 August, issued to the Audit and Governance Committee Chair and thereafter to other members of the committee.

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:

- the pressure on the Council's financial position and its budget plans for 17/18 and 17/18
- its work with partners in the NHS to contribute to new five-year Sustainability and Transformation Plan (STP) and to mitigate the risks to its
- the Council's arrangements to monitor the performance and governance of the 'alternative service delivery vehicles is being developed
- how the Council is making progress to maximise the benefits of HS2 and other major initiatives.

As set out in our update to the Chair we have also considered the implications of the matters that give rise to the temporary management arrangements and also matters reported by Internal Audit into specific governance issues.

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 33 to 37.

The text of our proposed report can be found at Appendix B.

### **Overall conclusion**

Based on the work we performed to address the significant risks we propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The basis for this is that we note that:

- The Council has put in place temporary senior management arrangements affecting the statutory posts of Chief Executive as Head of Paid Service, the S151 Officer, the Monitoring Officer, as a neutral act, whilst proper procedures are being followed for independent investigations.
- The Council is also investigating a number of weakness in the operation of its historic decision making arrangements. The findings of the reviews undertaken by Internal Audit into these matters are evidence of weaknesses in the Council's arrangements for acting in the public interest, through demonstrating and applying the principles and values of good governance to support informed decision making.

In reaching our conclusion we have regard to the information available to us at this time. However there is an independent disciplinary investigation underway and this is one reason why we will not issue our certificate to bring the audit for 2016/17 to a formal close.

The text of our proposed report can be found at Appendix B.

### **Recommendations for improvement**

The Council is already addressing its historic arrangements and we see the Internal Audit reports as providing a strong basis for future actions. The Council should therefore ensure it responds fully to Internal Audit's recently reported work.

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>The Council has historically managed its finances well and has consistently achieved financial targets. It is forecasting a small overspend of 0.7% of £1.7m (at the time of the auditor's risk assessment in March 2017) . This is affected by the impact of demand led services, such as the cost pressures experienced in Adults and Children's care services.</p>	<p>We reviewed the Council's understanding of the underlying issues and the actions being taken to mitigate these risks, through review of budgetary information and discussion with key officers.</p>	<p>The 2016/17 outturn was an overall overspend against budget of £1.7m (or 0.7%) in line with the position forecast earlier in the year. The Council reported that in line with national trends the position has been strongly influenced by an increase in caseload and costs associated with Children in Care and in particular from demand for Adult Social Care services. The most significant variance relates to Adult Social Care and Health with an overspend against budget of £5.3m. The Council has examined the underlying courses of this and reported on the implications of this in its outturn report. This highlights the pressure of £5.6m on its care cost budget arising from the growth of people receiving residential and nursing care and long term domiciliary care. The growth in the volume of clients, with increasingly complex care needs combined with the increase in fees adds to this challenge.</p> <p>Looking ahead, the Council approved its 2017/18 budget and medium term financial strategy in February 2017 in line with its usual planning timetable. The work throughout the year saw the Council tackle a projected funding gap of £94m over the period of the MTFS to 2019/20. In September this was reported to be mitigated by policy proposals and reduced to around £5m per year. The resultant approved MTFS reports a balance position for 2017/18 and is provisionally balanced for 2018/19 and 2019/20.</p> <p>Measures in 2017/18 included an increase in council tax of 4.99% (following on from the 3.75% increase in 2016/17 after a council tax freeze for five years), savings and efficiencies and a mix of specific policy proposals for each service. The funding position uses only a very small net contribution from earmarked reserves and an assumption that general reserves are not applied.</p> <p>The position in those later years of the MTFS continues to be monitored during 2017/18 as changes are implemented and further information and clarification on cost pressures is determined. The proposals for change include review of management and staffing structures, focus on corporate services, challenging discretionary services and review and challenge of contracts. Maximising development opportunities to prompt business rate growth, working with health partners and the third sector, rationalising assets, challenging the capital programme and seeking development opportunities to increase productivity are other measures being applied to tackle this challenge.</p> <p>We have obtained a sufficient understanding of the arrangements in place to inform our value for money conclusion, particularly with regard to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>

Significant risk	Work to address	Findings and conclusions
<p>With underlying financial deficits in the NHS, and the new five-year Sustainability and Transformation Plan (STP) now submitted, we need to understand the arrangements that the Council has to contribute to this process and to mitigate the risks to its resources.</p> <p>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 gained an understanding of the role that the Council is playing to contribute to change in the local health economy.</p> <p>We discussed this with key officers and considered the project management and assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.</p>	<p>We have obtained a sufficient understanding of the arrangements in place to inform our value for money conclusion. In making this assessment we note the following aspects of the Council's arrangements:</p> <ul style="list-style-type: none"> <li>Cheshire and Merseyside STP covers 12 Clinical Commissioning Groups (CCGs), 20 providers and nine local authorities, including Cheshire East Council. Cheshire East Council is part of the Cheshire and Wirral Local Delivery System (LDS), one of three that make up the STP. The Council is part of the local partnership of health and care organisations that have developed these plans. Its guidance and involvement is vital to help set the strategic direction of health and care service development locally. The Council is represented on the STP working group, and so has engaged in this process to influence, inform and seek to mitigate the risks that may arise from the developments.</li> <li>The Council also has a scrutiny role, democratically representing its population in reviewing plans, through Health and Wellbeing Boards and through Health Overview and Scrutiny Committees. In November 2016/17, the Health and Wellbeing Board made their observations on the STP, highlighted the need for further detail and for a programmed approach in respect of social care which was not factored into the current STP.</li> <li>The LDS builds on established transformation programmes which for Cheshire East Council include Caring Together (West) and Connecting Care(South). As established programmes these have mechanisms in place for communication and decision making but the governance arrangements for the wider STP and LDS continue to be developed. A Membership Agreement for the STP and a Memorandum of Understanding for the LDS are drafted for consideration by partners but the Council has not signed up to these.</li> <li>With a reported funding gap of £908m in NHS finances by 2020 – 2021 if nothing changes, the STP highlights the significant service and financial challenges, across the region. The scale of change across the health and social care economy is one of major transformation which requires strategic direction, leadership and accountability if the benefits are to be realised.</li> </ul> <p>In 2016/17, the Council have contributed to the process, and reflected on the risks to its own services and how to mitigate these – but the engagement in future will remain critical if the Council are to effectively inform and influence the further development and implementation of the STP plans.</p> <p>Overall this supports the assertion that 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>The Council commissions services from a range of different delivery models, including an increasing number of companies, the leisure trust and a return to shared services. The Council's arrangements to monitor the performance and governance of these 'alternative service delivery vehicles' remains important to the effective delivery of its objectives.</p>	<p>We discussed with key officers and reviewed the Council's project management and risk assurance frameworks to consider how these are developed to keep pace with the further changes in the Council's operations.</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 its wider service providers.</p> <p>The number of ASDVs has increased with the inclusion of skills and growth company. The governance arrangements already in place for the other wholly owned companies are extended to this company. There is a governance framework in place, that continues to operate throughout 2016/17. Throughout the year, CERF has continued to provide a forum to receive presentations on the financial and operational performance of each company and provides scrutiny and challenge. The Council recognises that there is more that CERF can do to enhance the company structure, and add value to the existing operations through "encouraging and supporting the ASDVs in maintaining, improving and growing their business in a sustainable manner...". A review of CERF is under way to:</p> <ul style="list-style-type: none"> <li>- review the effectiveness and appropriateness of the governance arrangements for the WOCs;</li> <li>- clarify responsibilities between the commissioning functions within the Council and CERF as the parent company;</li> <li>- clarify the expectations of CERF as a company in its own right and as the holding company at the head of a group.</li> </ul> <p>Following on from the decision reached in 2015/16 to bring the joint venture operation to an end, the Councils have worked to transfer transactional and ICT services back to in house shared service hosted by the Cheshire East and CWAC Council and to implement new working arrangements. Throughout this transition stage, progress has been reported to the Shared Services Joint Committee. These reports have providing Members with information on how the shared services have delivered their key objectives in areas including: financial performance; business continuity; development of a new target operating model; management restructure; strategic business plan; services and payment mechanism.</p> <p>The Councils have also considered the lessons that could be learnt and how this could be used to support any ASDV models going forward. The learning points highlighted the importance of robust and commercially focussed business cases, underpinned by realistic expectations and recognising the different skills that are needed to operate effectively in a commercial environment.</p> <p>We have obtained a sufficient understanding of the arrangements in place to inform our value for money conclusion, particularly with regard to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>

Significant risk	Work to address	Findings and conclusions
<p>The Council's progress in maximising the benefits of HS2 and other major infrastructure initiatives and the way in which the Council is engaging with partners in the Northern Gateway Development Zone is an area that is of public interest. On the basis that we don't know much about these developments, this is highlighted as a significant risk in order that we can be assured that the Council has appropriate arrangements in place.</p>	<p>We discussed with key officers and reviewed any documents to assess the Council's approach to this engagement.</p>	<p>The Council is a part of the Northern Gateway Partnership, which is an economic partnership between seven local authorities and two Local Enterprise Partnerships. Cheshire East Council has the additional role of accountable body and is providing project management support to drive the development of the joint HS2 Growth Strategy.</p> <p>The objective for the Council is to deliver sustainable plan led growth in the Borough on the back of HS2 investment at Crewe. The report to cabinet in February 2017 provided members with an update on the progress to date and highlighted the work underway in order to deliver a comprehensive Growth Strategy in spring 2017.</p> <p>The work of the partnership, and the Council's engagement in that, is key to ensure that the wider benefits of growth in employment, housing, retail and leisure may be realised as the project moves from its planning phase to delivery.</p> <p>We have obtained a sufficient understanding of the arrangements in place to inform our value for money conclusion, particularly with regard to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>

Significant risk	Work to address	Findings and conclusions
<p>In April 2017 the Council put temporary senior management arrangements in place affecting the statutory posts of Chief Executive as Head of Paid Service, the S151 Officer, the Monitoring Officer resulting in:</p> <ul style="list-style-type: none"> <li>the appointment of the Executive Director for People and Deputy Chief Executive as Acting Chief Executive</li> <li>the appointment of an interim Director of Finance and Procurement (Section 151 Officer)</li> <li>the appointment of an Acting Director of Legal Services (Monitoring Officer).</li> </ul> <p>Information coming to the auditor's attention after 31 March is relevant to the auditor's conclusion in so far as it informs our understanding of the arrangements in place during the year.</p> <p>The circumstances behind each of these appointments differ. However the matters that give rise to this course of action suggest signs of fundamental governance issues during the period of audit.</p>	<p>We note that:</p> <ul style="list-style-type: none"> <li>there is an active police investigation underway. As a result, any investigation relating to the Chief Operating Officer is deferred. As a protective measure, responsibilities relating to finance, procurement and internal audit are transferred to the Interim Director of Finance and Procurement</li> <li>proper procedures are being followed for the independent investigation regarding the Chief Executive and the Director of Legal Services, who are suspended as a neutral act.</li> </ul> <p>It is important that our audit considerations do not disturb these proper processes from being followed.</p> <p>Officers are currently working with us to provide the evidence we need to issue our VFM conclusion.</p>	<p>Officers updated us on developments during the latter stages of the audit. As both the police investigation and internal disciplinary investigations are ongoing, they have not been evaluated for the purposes of our VFM conclusion. However, in addition to these investigations, a number of new matters were identified and investigated by Internal Audit. The results of Internal Audit's work are sufficient evidence of weaknesses in the Council's governance arrangements for us to qualify our VFM conclusion on the basis of weaknesses in the Council's arrangements for acting in the public interest. As such, we concluded that the Council's arrangements for demonstrating and applying the principles and values of good governance to support informed decision-making were inadequate.</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**

During the year, the Council's Interim Director of Finance and Procurement drew our attention to specific historical arrangements where Internal Audit had identified significant concerns in governance. We considered Internal Audit's work and reflected its findings in our VFM conclusion work.

### **Any other matters**

The ongoing police investigation has resulted in us holding our audit certification for 2015/16 open, as, pending its outcome, we may need to return to evaluate whether we are required to undertake formal audit action for the 2015/16 audit year. As the matters under police investigation do not relate to 2016/17, they do not have an impact on our 2016/17 audit certificate. However, both the internal disciplinary investigations and the results of Internal Audit's further investigations mean that we have decided not to certify our 2016/17 audit as complete either. In addition, we have also received a separate and unrelated objection to the 2016/17 accounts, which will now be determined. We are satisfied that these matters do not have a material bearing on our proposed accounts opinion and VFM conclusion for the year but our certificate is withheld to allow us the opportunity to consider whether formal audit action is required in these areas. We will keep the members of the Audit and Governance Committee fully informed of the results of these considerations.

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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.

### External Audit Fees

	£
Council external audit	154,590
Variation to scale fee agreed by PSAA for support to the ongoing police investigation	5,547 24,375
Grant Certification	
<b>Council audit fees (excluding VAT)</b>	<b>184,512</b>
External audit fees for the wholly owned companies	
• Engine of the North Limited	6,500
• ANSA Environmental Services Limited	12,250
• Orbitas Bereavement Services Limited	6,500
• Transport Service Solutions Limited	10,500
• Civicance Limited	6,500
• Skills and Growth Company Limited	6,500
• Cheshire East Residents First Limited	3,500
<b>Total audit fees (excluding VAT)</b>	<b>236,762</b>

The proposed Council audit fee for the year is subject to an agree fee variation from the scale fee set by Public Sector Audit Appointments Ltd (PSAA). This variation has been agreed by 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 Interim Director of Finance and Procurement and must also be approved by PSAA Ltd.

### 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Group. The table below summarises all other services provided, which were identified.

### Fees for other services

Audit related services	£
Reasonable assurance report for teachers pension return (November 2016)	4,800
Reasonable assurance report for Local Authority Major Transport Scheme (November 2016)	5,000
Non audit related services	£
Employment taxes helpline service to January 2017	2,833
CFO Insights, 3 year subscription from 2017/18	27,000
Additional services provided to the Cheshire East Companies:	
• Tax compliance services for 5 of the wholly owned companies (work relating to 2016/17 but carried out during 2017/18)	8,590
• Tax compliance service for CoSocius (work relating to 2015/16 but carried out during 2016/17)	1,435
• VAT work for Orbitas – (work carried out during 2016/17)	4,000
• Liquidation work relating to Cosocius:	
• work carried out in 2016/17	6,593
• work carried out in 2017/18	1,893

# Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Group's auditor and have ensured that appropriate safeguards are put in place. We obtained approval from PSAA Ltd to carry out the work in 2017/18, as this work brings the total sum charged in respect of non audit services work to a total that is above the reporting threshold.

In each case we have considered the possible threats to our independence in respect of self-interest, self review, management, advocacy, familiarity and intimidation. We conclude that no threats exist and thus no safeguards are required.

	Service provided to	Fees	Threat and Safeguard?	Comment
<b>Audit related services</b>				
Reasonable assurance report for teachers pension return	Cheshire East Council	4,800	No threat	These pieces of work are each connected to the audit of the financial statements and so it is appropriate that this is carried out by the audit engagement team.
Reasonable assurance report for Local Authority Major Transport Scheme	Cheshire East Council	5,000	No threat	
<b>Non Audit Services</b>				
Employment taxes helpline service	Cheshire East Council	2,833	No threat	Helpline service provide to HR department to January 2017 for ad hoc queries relating to employment taxation.
CFO Insights	Cheshire East Council	27,000	No threat	Nature of the service presents no threat to independence as CFO Insights is an online software service offering that enables users 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 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.
	<b>TOTAL</b>	<b>£39,633</b>		

# Independence and other services

	Service provided to	Fees	Threat and Safeguard?	Comment
<b>Non Audit Services (continued)</b>				
Tax compliance services	<ul style="list-style-type: none"> <li>• Engine of the North Limited</li> <li>• ANSA Environmental Services Limited</li> <li>• Orbitas Bereavement Services Limited</li> <li>• Transport Service Solutions Limited</li> <li>• Civicance Limited</li> </ul>	Total of 8,590	No threat	<p>The work performed in the 2017/18 financial year is to complete a service that was commenced under previous ethical regulations, as allowed by the transitional rules of NAO Auditor Guidance Note 01.</p> <p>This service will not be provided in future.</p> <p>The tax team is independent of the audit team</p>
Tax compliance service (work in respect of 2015/16)	CoSocius	1,435	No threat	<p>This service will not be provided in future.</p> <p>The tax team is independent of the audit team</p>
VAT work for Orbitas concluding 2016/17	Orbitas Bereavement Services Limited	4,000	No threat	Providing information to assist the company in its response to the HMRC challenge.
Liquidation work relating to Cosocius – two phases spanning 2016/17 and 2017/18	Cosocius – joint venture company of Cheshire East Council and Cheshire West and Chester Council	8,486	No threat	The work performed in 2017/18 financial year is to complete a service that was commenced under previous ethical regulations, as allowed by the transitional rules of NAO Auditor Guidance Note 01
	<b>TOTAL</b>	<b>£22,511</b>		

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. 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	Strengthen the IT control environment relating to systems access segregation of duties and default accounts as set out in the Internal Controls Section – Page 21.	<b>M</b>	<p>Agreed. The Council is working with its ICT service to strengthen its arrangements. The Council has undertaken a comprehensive review of their staff Oracle responsibilities and conflicts based on Grant Thornton measures. A risk assessment was conducted that identified the level of risk into H/M/L. The majority of the risks were deemed low as alternative controls were in place not taken into account as part of GT findings. There were no high risks. Those deemed to be medium were reviewed and where the Council recognises the risk these will be considered as part of the implementation of Best4Business.</p> <p>As the B4B implementation is planned for completion in September 2018 it is anticipated that no further expense will be incurred to further secure the Oracle EBS system and the Council will acknowledge acceptance of any risks in the short term.</p>	Chief Operating Officer – October 2018
2	The Council should ensure that key decisions relating to termination of employment are subject to the authorisation requirements set out in the constitution and that the documentary evidence of this is retained.	<b>H</b>	Agreed. The process has now been changed so that a copy of the authorised documentation is forwarded to Finance following each Approval Panel.	Chief Operating Officer – Done

## Appendix A: Action plan (continued)

### 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	The Council should review its procedures to consider how arrangements to identify expenditure that needs to be accrued at the year end, may be strengthened to reduce risk of omission.	<b>M</b>	Agreed. Communications are issued as part of the year end process to remind services of the accrual process. This will be reinforced for the 2017/18 financial year closedown.	Head of Finance & Performance – April 2017
4	The Council should ensure it responds fully to the recently completed Internal Audit special investigations.	<b>H</b>	Agreed.	Director of Finance & Procurement (timescales will be in line with agreed Audit recommendations)

# Appendix B: Audit opinion

**We anticipate we will provide the Group with an unqualified opinion on its accounts but a qualified ‘except for’ conclusion on its Value for Money arrangements**

## 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 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement 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 2016/17.

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 Authority's 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 Director of Finance and Procurement (Section 151 Officer) and auditor

As explained more fully in the Statement of Responsibilities, the Director of Finance and Procurement (Section 151 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 Director of Finance and Procurement (Section 151 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 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 for the financial year for which the financial statements are prepared is consistent with the 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: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

## Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, 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 this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. 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 for securing economy, efficiency and effectiveness in its use of resources.

**Basis for qualified conclusion**

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matters:

- The Authority has put in place temporary senior management arrangements affecting the statutory posts of Chief Executive as Head of Paid Service, the S151 Officer, the Monitoring Officer, as a neutral act, whilst proper procedures are being followed for independent investigations.
- The Authority is also investigating a number of weakness in the operation of its decision making arrangements identified in reviews conducted by internal Audit.

The findings of the reviews undertaken by Internal Audit into these matters are evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of good governance to support informed decision making.

**Qualified 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 2016, except for the effects of the matter described in the Basis for qualified conclusion paragraphs, we are satisfied that in all significant respects the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Certificate**

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until:

- we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2017.
- the Council has completed its internal disciplinary investigations into a number of its chief officers
- we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act.

We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of its resources for the year ended 31 March 2017.

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

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B4 6AT

[Date]



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