Audit Findings

Year ending 31 March 2018

Cheshire East Council

July 2018

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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 for the purpose of expressing our opinion on the financial statements. 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key issues arising from the statutory audit of Cheshire East Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion the group and Council's financial statements give; • a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income for the year, and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed on site during June and July. We have identified a number of adjustments to the financial statements that have resulted in adjustments to the Statement of Comprehensive Income and Expenditure and the Balance Sheet. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Audit adjustments are detailed in Appendix C. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 31 July 2018, as detailed in Appendix E. These outstanding items include: - completion of procedures over the consideration of accounting for defined benefit pension liabilities - receipt of management representation letter; and - review of the final set of financial statements. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Cheshire East has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except in relation to some specific governance issues: The Council has operated throughout the year of audit with interim senior management arrangements in place as a result of ongoing disciplinary proceedings involving the statutory officers (Chief Executive/Head of Paid Service, Monitoring Officer and S151 Officer). Investigations by the Council's internal audit team have provided evidence of a number of historic weaknesses in the Council's arrangements for informed decision making and acting in the public interest through demonstrating and applying the principles and values of good governance. Until these matters are resolved they raise the risk of weaknesses in the Council's arrangements for implementing and sustaining sufficient and appropriate governance arrangements throughout the organisation. Until the Council is able to demonstrate it has put these matters behind it we consider that there is evidence of weaknesses in proper arrangements for informed decision making in acting in the public interest, through demonstrating and applying the principles and values of good governance. We therefore anticipate issuing a qualified "except for" value for money conclusion, as detailed in Appendix E. Our findings are summarised from page 13.

Headlines

Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We do not expect to be able to certify the conclusion of the audit yet as: • the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018 remains to be completed • Other matters raised with the auditor have yet to be considered. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Acknowledgements

The Council has responded well to the challenge presented by early close of the financial statements and meeting the challenge to ensure audit completion of the financial statements by the 31 July 2018. 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.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit Committee.

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

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for Cheshire East Council component and an analytical approach was required for the following components;
  - Cheshire East Residents First (CERF) Ltd
  - Ansa Environmental Services Ltd
  - Alliance Environmental Services Ltd (subsidiary of Ansa Environmental Services Ltd incorporated in 2017/18)
  - Orbitas Bereavement Services Ltd
  - Transport Service Solutions Ltd
  - Engine of the North Ltd
  - Civicance Ltd
  - The Skills and Growth Company Ltd
- an evaluation of the group's internal controls environment including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Governance Committee meeting on 31 July 2018, as detailed in Appendix E. These outstanding items include:

- completion of our work regarding defined benefit pensions
- receipt of management representation letter and
- review of the final set of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have adjusted our materiality calculations based on draft financial statements for the year ending 31 March 2018. We detail in the table below our assessment of materiality for Cheshire East Council.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	11,638,000	11,638,000	We have deemed the final financial statement materiality to be 1.8% of gross expenditure, the same benchmark we used in the prior year.
Performance materiality	8,729,000	8,729,000	We have applied a performance materiality of 75% of materiality.
Trivial matters	437,000	437,000	Triviality has been calculated at 5% of materiality
Materiality for specific transactions, balances or disclosures	59,000	59,000	We have calculated a specific materiality for Senior Officer remuneration based on 1.8% of total senior officer remuneration.

Going concern

Our responsibility

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

From our review of the Council’s financial outturn, medium term financial plan and your own assessment and consideration of going concern we are satisfied that there is no audit risk of material uncertainty in relation to the Council.

The Council has achieved a balanced budget and retained general reserves at £10.3m. The Council has updated its forecasting for 2019/20 and noted a budget gap. However, the Council has identified efficiencies from service lines and anticipates that further savings from budget assumptions made in its People, Place and Corporate Services will be made. The Council is therefore planning to have a balanced budget for 2018/19 and considers that there will be no requirement to draw down from reserves.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We did not identify improper revenue recognition of revenue as a risk requiring special audit consideration	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Cheshire East Council.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have completed the following procedures to gain assurance over this risk – review of accounting estimates, judgements and decisions made by management – testing of journal entries – review of unusual significant transactions and any changes in accounting policy. Our audit work has not identified any instances of management override of controls.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The Council revalues its land and buildings every five years, to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Auditor commentary** We have: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • considered the competence, expertise and objectivity of any management experts used. • discussed with the valuer about the basis on which the valuation is carried out and challenge the key assumptions. • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding. • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. An external desktop valuation of assets not valued in the year was carried out, which noted that there was a material difference between the carrying value of assets and their value. As a result the Council completed a full revaluation of some of these assets which were not valued, and was able to demonstrate that the difference between the carrying value and fair value was £6.8m, which is below materiality thresholds. From the audit procedures carried out we have gained sufficient assurance to conclude that the valuation of property, plant and equipment is free from material misstatement.
4	**Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Auditor commentary** We have: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated and assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation • gained an understanding of the basis on which the valuation is carried out • undertaken procedures to confirm the reasonableness of the actuarial assumptions made • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. From the audit procedures carried out we have gained sufficient assurance to conclude that the valuation of pension fund net liability is free from material misstatement.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
5	**Employee remuneration** Payroll expenditure represents a significant percentage - approximately 33% - of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface between the payroll and ledger systems, there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention	**Auditor commentary** We have • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness • gained an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls • reviewed year-end payroll reconciliation and check that amounts in the accounts are reconciled to ledger and through to payroll reports • agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents. • completed substantive analytical procedures on payroll data From the audit procedures completed we are satisfied that employee remuneration balances disclosed in the financial statements are free from material misstatement.
6	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage 67% of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Auditor commentary** We have: • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls • documented the accruals process and challenge underlying assumptions, source date and basis for calculation • tested a sample of payments and ensure that they have been charged in the appropriate year • reviewed the year end accounts payable reconciliation and investigate significant reconciling items. From the audit procedures completed we are satisfied that operating expenses disclosed in the financial statements are free from material misstatement.

Other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan.

Issue	Commentary	Auditor view
1 **Consideration of accounting for defined benefit pension liabilities** Where a service organisation becomes a scheme employer or admission body to the LGPS, the pension liability will sit with the new employer unless a tripartite agreement is in place to restrict the new employer's obligations to the scheme to making fixed contributions. It is this tripartite agreement that sets out the shared understanding between the company, Local Authority and also the Administering Authority of the Pension Scheme, of where the actuarial/investment risk lies. It demonstrates which party is considered responsible by the Pension Fund, for any obligations to meet a shortfall expected in the plan assets to cover the post employment benefit obligations.	Cheshire East Council has a number of wholly owned companies who are each separate employers in the Cheshire Local Government Pension Scheme. When the companies were first set up, a pension settlement was negotiated under which the Companies were not responsible for the past service pension liability at the time of the transfer. The Council allocated assets to the company sufficient to cover the past service liabilities at the point of formation. The Council and Companies put together a revised arrangement with the intent of transferring the actuarial and investment risk back to the Council with effect from 1 April 2015. This was actioned through a Deed of Variation for each company that was an agreement between each Company and the Council. From 2015/16 onwards each company accounted for their pension transactions as a defined contribution scheme and the Council accounted for the combined defined benefit pension liability for the Council and its wholly owned companies in its single entity accounts. Accounting for the defined benefit pension liability under IAS 19, the Council applied the statutory override to replace the IAS costs in the CIES with the actual contributions (for the Council and the Companies) as a charge against the general fund. Our review has found that a tripartite agreement does not exist which would formalise this arrangement between the Council, the Companies and the Pension Fund. The Council used the Deeds of Variation to amend the terms of the various Agency Agreements between each Company and the Council. The terms were such that the Company would pay the pension fund the rates as determined on triennial valuation, but that any additional costs levied by the Regulations and payable by the Company to the pension fund would be the responsibility of the Council. In this way the Company would only be exposed to a fixed rate of contribution. The Council therefore considers that actuarial and investment risk is retained by the Council and is accounting for the defined benefit pension liability for the wholly owned companies along with the Council's own liability as part of the single entity accounts.	**Auditor view** • We have considered the evidence the Council has presented to us in respect to this arrangement and we can see that there was clear intent to put in place a legally enforceable arrangement that transferred the actuarial and investment risk relating to the defined benefit pension scheme back to the Council with effect from 1 April 2015. • The pension fund was privy to the arrangement which has been documented through various communication between the Council and the administering authority and through their part in ensuring that a consolidated actuarial report was provided for the Council and its wholly owned companies • We recommend that the Council regularises this arrangement ensuring that there is a tripartite agreement in place between the Council, the companies and the pension fund.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Government grants and contributions are recognised in the Comprehensive Income an Expenditure Account when there is reasonable assurance that the payment will be received and conditions will be satisfied. • Revenue is included in the accounts on an accruals basis, apart from minor cash income which is shown when the income is incurred. • Sales, fees, charges and rend due from customers are accounted for as income at the date the Council provides the relevant goods and services. • Where income has been recognised but cash has not been received a debtor is recorded in the Balance Sheet. Where it is doubtful he debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.	We are satisfied that the policy is appropriate and in line with sector guidance, the CIPFA Code of Practice and Industry norms.	●
Judgements and estimates	• Key estimates and judgements include – Useful life of PPE – Revaluations – Impairments – Accruals – Valuation of pension fund net liability – Provision for NNDR appeals – Other provisions	We have reviewed the adequacy and implementation of the key estimates and judgements included in the Council's financial statements and are satisfied that the policies are in line with sector guidance, CIPFA Code of Practice and industry norms.	●
Other critical policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	●

Assessment

- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● 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	**Matters in relation to fraud**	• 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.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed
3	**Matters in relation to laws and regulations**	• 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.
4	**Written representations**	• A standard letter of representation has been requested from the Council, including specific representations in respect of the Group
5	**Confirmation requests from third parties**	• We obtained positive direct confirmations from PWLB, and other banks for loans and investment balances
6	**Disclosures**	• Our review found no material omissions in the financial statements. The Council have made a number of changes to reflect the matters identified by our audit work and the details of these are detailed from page 22 onwards.

Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to appendix E
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	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. As the Council exceeds the specified group reporting threshold of we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • Note that work is not yet completed and the planned timescale for the work will be completed when we received the updated consolidation pack for examination. We will bring any matters arising from our review to the attention of the Audit and Governance Committee.
4	**Certification of the closure of the audit**	We do not expect to be able to certify the completion of the 2017/18 audit of Cheshire East Council in our auditor’s report, as detailed in Appendix E as matters relevant to the financial statements have been raised which are yet to be resolved.

Value for Money

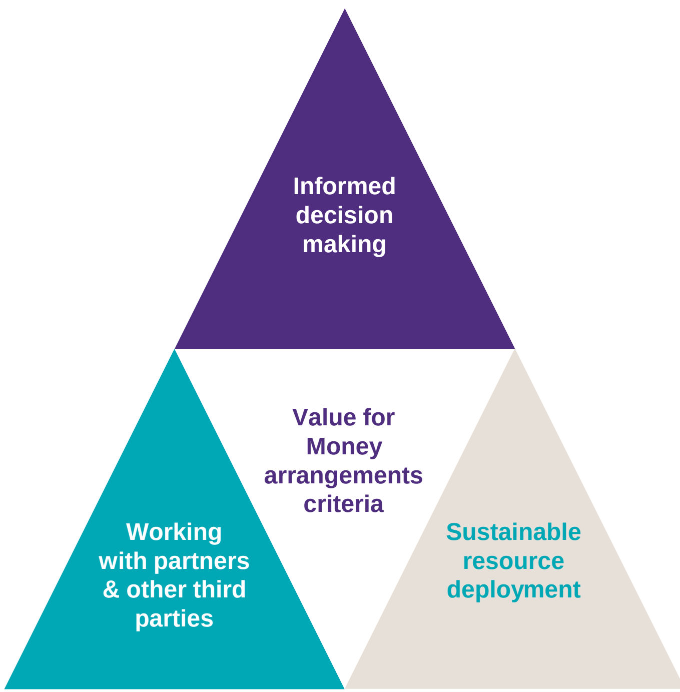
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2018.

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

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

Value for Money

Our work

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. In arriving at our conclusion, our main considerations were:

- The Council continues to operate under 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 an independent investigation
- The Council is also investigating a number of weakness in the operation of its decision making arrangements identified in reviews conducted by internal Audit.

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 15 to 17.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that except for the matter we identified in respect of inadequate arrangements for demonstrating and applying the principles and values of good governance to support informed decision-making, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources.

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

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
1 **Impact of historic governance matters** During 2017/18 the Council has embarked on a number of reviews of its governance arrangements in specific areas. These are reflected in the prior years' AGS and the update report to the Audit and Governance Committee. During the year, 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 whilst proper procedures were followed for independent investigation regarding these officers. The underlying governance issues that gave rise to these reviews is not relevant to the 2017/18 VFM conclusion. However the actions being taken to move forward, to ensure weakness are identified and appropriately addressed are relevant to this consideration. The Council needs to demonstrate that it has addressed these historic governance matters, whilst not being distracted from the necessary focus on the delivery of its strategic objectives and its financial plans which presents a challenge to the current management team. We propose to review the Council's understanding of the underlying issues and the actions being taken to mitigate these risks, through review of reports and discussion with key officers.	• In 2017/18 the Council had an Executive Leadership Team (ELT) in place which was composed of an acting Chief Executive Officer, an acting Deputy Chief Executive Officer, an Interim Executive Director/S151 Officer and an acting Executive Director for People. • The Council is not in a position to make permanent appointments to these roles until current investigations are concluded or until individuals involved in these investigations resign. • Although Chief Executive has resigned in July 2018, the Council will have to go though a process of appointment to fulfil this role on a permanent basis. • The Chair of the IDC was asked to step down following certain matters. • Furthermore, In April 2018 a number of potential data breaches were reported to the Information Commissioners Office. • Discussions with the Monitoring Officer have noted that during the year there were 3 statutory officers and a former cabinet member who have disciplinary procedures against them and 5 matters have been referred to the police. • In addition to these investigations there are other historic matters that have been brought to our attention that Internal Audit are investigating.	The current level of investigations from prior years and experiences from this year are sufficient evidence of weaknesses in the Council's arrangements for acting in the public interest and a basis for us to qualify our VFM conclusions. We have concluded that given the issues facing the Council, arrangements for demonstrating and applying the principles and values of good governance to support informed decision-making are inadequate

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
2 **Planning finances effectively** The Council has historically managed its finances well and has consistently achieved financial targets. The quarterly reviews reported to the Corporate Overview & Scrutiny Committee and Cabinet detail potential financial deficits in 2017/18. The overspends are prevalent in relation to Social Care. A range of measures to reduce the outturn position against the 2017/18 have been introduced, along with a forecast transfer from earmarked reserves to maintain general reserves at the required risk based level (in accordance with the Reserves Strategy approved in February 2017). We propose to review the Council's understanding of the underlying issues and the actions being taken to mitigate these risks, through review of budgetary information, subsequent monitoring reports and discussion with key officers.	As reported in September 2017 financial outturn reports, financial pressures could have led to a deficit of £17m for the Council. However, the Council was able to introduce actions which enabled them to deliver a balanced outturn. The financial pressures originated mainly from the People Directorate, where Children and Adult service demands exceeded original forecasts, and also increased financial pressures in Waste Services, Planning and Transport. Although it was a challenging year for the Council, like all local authorities due to pressures of rising inflation, increased demand for services and continuing reductions in government funding, the financial outturn for the Council is balanced for 2017/18 with gross income matching gross expenditure meaning general reserves remain unchanged at £10.3M. In June 2018 the Council has updated its forecasting for 2019/20, it increased the budget gap and has also now identified further efficiencies to address this deficit based on reducing budgets for some service lines, using contingency funds, receipts and additional funding from Business Rates, Council tax and New Homes Bonus. The Council has also revised budget assumptions so that the People, Place and Corporate services will identify further savings and following these measures the Council is now planning to achieve a balanced budget for 2019/20 and does not intend to use any of its general reserves to mitigate any shortfall. For 2020/21 the Council is still to refresh the budget position but is confident of reducing the remaining unidentified budget requirement to have an in year balanced budget.	From our review of the financial out turn of the Council and plans for 2019/20 and 2020/21 we are satisfied that the Council has adequate plans to manage its financial risks and there are no material financial uncertainties which impact the Council to operate as a going concern.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings	Conclusion
3	**Working effectively with its partners** The local health organisations and local authorities have worked together to agree three key improvement priorities to jointly deliver in order to drive forward the necessary transformation and improvement of the health and care services across Cheshire. The three priorities are integrated commissioning, integrated provisions and sustainable hospital services across Cheshire. The work to design and implement an integrated health and care commissioning and delivery system is taking place against the backdrop of significant financial challenges in the local health economy and continuing demand pressures on social care services. 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. This represents a continuing risk to the VFM conclusion as we need to understand the arrangements that the Council has to contribute to this process and to mitigate the risks to its resources. We propose to gain an understanding of the role that the Council is playing to contribute to change in the local health economy and to move forward with the effective integration of health and social care. We will discuss this with key officers and review the project management and assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these risks.	The NHS Cheshire and Merseyside STP acts as the system manager for monitoring arrangements across health services within Cheshire and Merseyside. The role of the system manger is to hold organisations and partnerships accounts for delivery, with a focus of the development and implementation of integrated care, looking at the cross working of Council and third sector bodies. Within the Cheshire East geography, Cheshire East Health and Care Place Based partnership has been formed through the merger of the Caring Together and Connecting Care Transformation Programmes, this was established in February 2018. The Council has representation on the board meetings for these working programmes, which include attendance of meetings by the acting Chief Executive, acting Executive Director of People and other officers from the Council. The Audit and Governance Committee is updated with the progression of health and care arrangements by the Corporate Manger Health Improvement. Currently there are no STP out-turn reports to review, with the first report to be issued after August 2018. However, the system management board programme review group receive updates from the work-stream leads. The Health and Wellbeing Board also receives regular updates on key activity. In 2017/18 the Council has contributed to the process and continues to reflect on any risks to it and how it will mitigate and manage these. However, in the future it is critical that the Council continues to be effectively involved and influence the further developments in the STP and wider health economy.	We are satisfied that the Council continues to make arrangements around its involvement in the wider health economy. We are satisfied that there is a clearly indication of governance and oversight arrangements being incorporated by the Council and proper arrangements for working effectively with partners towards the sustainability of adult health and social care services.

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

The amounts detailed on the subsequent page are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.

Independence and ethics

Service	£	Threats	Safeguards
Audit related			
Reasonable assurance report for teachers pension return	4,800	Self Interest Threat	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,800 in comparison to the total fee for the audit of £154,590 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
CFO Insights (3 year Subscription from 2017/18)	27,000	Self Interest and Self Review	Nature of the service presents low 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 Council to understand its relative performance. No value for money opinion threat.
Post liquidation services connected with the members voluntary liquidation of Cosocius (50% of the fee as it relates to the Joint Venture between the Council and Cheshire West and Chester Council)	1,893	Management and Self Review Threat	The entity had already asked for the service to be provided before the NAO issued Auditor Guidance Note 01. Our assessment of threats to independence demonstrated that it was permitted under ethical requirements applicable when we commenced the work, and the safeguards continue to be applied.
Corporate tax compliance services for work relating to 2016/17, carried out during the financial year 2017/18.	8,950	Self-Interest (because this was a recurring fee, this being the final year) and self-review	The Cheshire East companies had engaged this service before the NAO reissued Auditor Guidance Note (AGN) 01 and so this service is provided for the year ended 31 March 2017 only. The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,950 in comparison to the total fee for the audit of £154,590 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. A separate engagement team from the corporate tax team is used in undertaking the audit to reduce the self review threat to an acceptable level. The work carried out is not deemed material to the group audit.

Action plan

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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	● Low	• We have identified that in preparation of the Comprehensive Income and Expenditure Statements (CIES) there have been errors in the reporting of internal recharges. This was also an issue in 2016/17. • In addition, we identified that adjustments to remove internal recharges from the CIES are made as manual adjustments outside the Oracle ledger, which presents a risk that incorrect gross income and expenditure figures are reported.	• We recommend that the Council looks at its process of identifying internal recharges and the manner by which these are adjusted for in producing the Comprehensive Income and Expenditure Statement, to ensure it correctly reflects and eliminates recharges in subsequent years.
2	● Medium	• The Council undertook a process of completing a desktop revaluation of assets which were not formally valued in year to ascertain whether their valuation was materially different from their carrying value per the balance sheet. It was identified that there were material differences, which resulted in the Council having to carry out further valuations in the year. Once procedures were completed the Council was able to demonstrate that a difference of £6.8m remained which is below our materiality.	• We recommend that the Council considers the results of desktop valuations early and where it identifies material differences engages valuation of assets promptly.
3	● Medium	• Our review of data sent to the pension actuary for valuation identified that four schools that transferred and became academies at or before the balance sheet date of 31/03/2018 were not treated as bulk transfers out by the actuarial report. We noted that there was a similar issues in 2016/17.	• We recommend that the Council improves its process in regards to the reporting of bulk transfers out of the pension scheme, to ensure the correct updated data is sent to the actuary.
4	● Medium	IT Control - Segregation of duties conflicts • We performed a review of the access rights, known as responsibilities, assigned to users within Oracle E-Business Suite. High risk segregation of duties conflicts were identified. A full report has been provided to IT and security for review.	• 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). • Where management have decided to accept the risk of the segregation of duties conflicts, this should be formally documented. • From last year's audit results we have seen an improvement in the reduction of users with conflicts.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan (continued)

	Assessment	Issue and risk	Recommendations
5	●	In establishing its pensions 'pass through' arrangements with its companies the Council and each of its companies used a 'bipartite' deed of variation to document their agreement. The pensions Fund was aware of and involved with this process at the time the arrangements were established. Recent evidence at other councils suggests a greater degree of agreement should be put in place between all parties, ideally through a 'tripartite agreement'.	More formal recognition should be obtained from the Pensions Fund that it accepts the full retention of actuarial and investment risk by the Council regarding the employees of the Council's various companies.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Cheshire East Council's 2016/17 financial statements, which resulted in recommendations being reported in our 2016/17 Audit Findings report.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	• In 2016/17 we found that the approval 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 by the Service Manager, Finance Lead and Head of service. Management assert the forms were signed by the relevant Portfolio Holder, Director of Finance and Head of HR, but that these copies cannot be located or were no 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. • The reports provided do confirm that the amounts of termination benefits disclosed in the accounts are fairly stated.	• We have noted through are testing in 2017/18 that all termination benefits sample tested were adequately supported and authorised.
2	✓	• 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. • We consider that this is a lapse in the processes and controls that the Council has in place to identify those transactions where goods have been received but no yet paid for at the year end.	• In our testing for 2017/18 we did not identify any similar issues.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

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

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	The Council had included a forward payment made to the Pension fund in respect of its employer pension contributions for the 18/19 and 19/20 financial years in its accounts, amounting to £31.84m. This amount was recognised as a debtor (prepayment) on the Council's balance sheet. However, as the Council cannot demand to receive the money back, the forward payment is not a valid debtor/prepayment.		**Cr Debtors** 31,840 **Dr Net Pension Liability** 31,840	
2	For assets which had not been formally valued in year the Council engaged a desktop valuation to be carried out by external valuers to ascertain where the fair value of assets of assets not valued in the year were materially different from their carrying value per the balance sheet. The results of the desktop valuation showed that there was a material difference between the fair value and carrying value of assets of £16m. The Council subsequently engaged a further full valuation of some of these assets which resulted in changes to the asset valuations. As a result of the procedures carried out there was a £6.8m difference between the carrying value of assets and the fair value of assets which is below our materiality thresholds, and therefore does not require any further adjustments or consideration.		**Dr Fixed Assets** 10,868 **Dr Capital Adjustment Account** 2,577 **Cr Revaluation Reserve** 13,445	
3	Audit procedures carried out identified that there were errors in relation to internal recharges, which had been overstated by £6.1m and consequently this amount was erroneously removed from the Comprehensive Income and Expenditure Statements. This resulted in both gross income and expenditure reported in the Group and Council accounts being understated by £6.1m. Overall there was no impact on the net position of the statements.	**Cr Income** 6,000 **Dr Expenditure** 6,000		
	Overall impact	£nil	£nil	£nil

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Note 20 Officer's Remuneration – Senior Employees	Audit testing identified errors in the non-school staff numbers disclosed in specific remuneration bands. - £55k to £60k incorrectly disclosed as 22 officers instead of 21 - £70k to £75k incorrectly disclosed as 5 officers instead of 6 - £90k to £95k incorrectly disclosed as 3 officers instead of 4	• We recommend that the Council amends the note so that the bandings are presented in line supporting records	✓
Note 21 Termination Benefits	In our testing of Note 21 Termination Benefits disclosures we identified a difference of £2k between the total severance costs per the client's working papers which was £212k and the figure disclosed in the Note of £210k	• We recommend that the Council amends the note to be consistent with underlying records and calculations in respect of the termination.	✓
Note 24 Grant Income	A balance relating to Revenue Support Grant Income of £13,415k was omitted from the disclosure note, however, was correctly included in the Comprehensive Income and Expenditure Statement	• We recommend that the Council amends the note to include the Revenue Support Grant	✓
Note 24 Grant Income	We noted through our testing that the Capital Grants Receipts in Advance of £16,696k were not disclosed in the note, however, was correctly included in the Comprehensive Income and Expenditure Statement	• We recommend that the Council amends the note to include Capital Grants Receipts in Advance	

Audit Adjustments

Presentation and Disclosure Errors	We have carried out a detailed review of the financial statements and have made recommendations for the council to expand and/or remove extraneous information in the financial statements. These areas include • Introduction to the group statement of accounts • Narrative report • Group statements • Note 7 financial instruments • Note 12 Provision (had been excluded in draft accounts) • Note 14 - Cashflow statement - operating activities • Note 17 - Nature of Expenses (Segmental Reporting) • Note 21 - Termination Benefits • Note 26 - Defined Benefit Pension Scheme • Note 29 - Related Parties • Note 30 - Interest in Other Companies and Entities • Note 36 - Accounting Standards • Note 39 Pooled Budgets	• We recommend that the Council amends the narrative in these notes and remove any extraneous information which is not required in the financial statements.	✓

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees	**Proposed fee**	**Final fee**
Council Audit Fee	£154,590	£154,590
Variation to scale fee in respect to Sleep in Payments	£9,135	TBC Fee Subject to PSAA approval
Grant Certification	£13,608	£13,608
External audit fees for the wholly owned companies		
- Cheshire East Residents First (CERF) Ltd	£3,500	£3,500
- Ansa Environmental Services Ltd	£12,250	£12,600
- Alliance Environmental Services Ltd (subsidiary of Ansa Environmental)	£6,500	£6,700
- Orbitas Bereavement Services Ltd	£6,500	£6,700
- Transport Service Solutions Ltd	£10,500	£10,800
- Engine of the North Ltd	£6,500	£6,700
- Civicance Ltd	£6,500	£6,700
- The Skills and Growth Company Ltd	£6,500	£8,500
Total audit fees (excluding VAT)	**£222,475**	**£TBC**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'. The council were granted an in year refund from PSAA of £23,000 for the Council audit fee.

Non Audit Fees **Fees for other services**	**Fees** **£'000**
Audit related services:	
Non-audit services	
• Reasonable Assurance report for teachers pension return	£4,800
• CFO Insights, 3 year subscription from 2017/18	£27,000
• Post liquidation services connected with Cosocious (50% of the fee)	£1,893
• Corporate tax compliance services for work relating to 2016/17, carried out in 2017/18	£8,950

We note that there are some differences presented in Note 23 in the single entity and Note 5 of the group financial statements, which we do not consider material, see below;

- CFO Insights should be listed in the council accounts as well as group accounts
- The £10k 'fees payable for additional work commissioned by the Council', this relates to the scale fee as part of the audit
- The grant fees include £14k and the £5k for teacher's pension work

Audit opinion

We anticipate we will provide the Group with an unqualified opinion on its accounts but a qualified 'expect for' conclusion on its Value for Money arrangements

Independent auditor's report to the members of Cheshire East Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cheshire East Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which 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 all the related notes , including accounting policies contained within. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Interim Executive Director of Corporate Services (Section 151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Interim Executive Director of Corporate Services (Section 151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Interim Executive Director of Corporate Services (Section 151 Officer) is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the group and Authority financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard..

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Interim Executive Director of Corporate Services (Section 151 Officer) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim Executive Director of Corporate Services (Section 151 Officer). The Interim Executive Director of Corporate Services (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 2017/18, which give a true and fair view, and for such internal control as the Interim Executive Director of Corporate Services (Section 151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Interim Executive Director of Corporate Services (Section 151 Officer) is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit and Governance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified Conclusion

On the basis of our work, having regard to the guidance issued by the Comptroller & Auditor General in November 2017, except for the effects of the matters described in the basis for qualified conclusion section of our report, we are satisfied that, in all significant respects, Cheshire East Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018

Basis for qualified conclusion

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

The Authority has operated throughout the year of audit with interim senior management arrangements in place as a result of ongoing disciplinary proceedings involving senior officers.

Investigations by the Authority's internal audit team have provided evidence of a number of historic weaknesses in the Authority's arrangements for implementing and sustaining sufficient and appropriate governance processes throughout the organisation.

These matters are evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance.

Responsibilities of the Authority

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 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 2018.
- our consideration of matters brought to our attention

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 resources for the year ended 31 March 2018.

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

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31 July 2018