

Summary of Findings



Risks identified in our Audit Plan	Commentary
<p>Improper Revenue recognition</p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue</p>	<p>Auditor Commentary</p> <p>ORBITAS/CIVICANCE/EOTN/SAGC: We have not identified any issues in respect of revenue as a result of testing performed.</p> <p>ANSA - We have not identified any issues in respect of revenue as a result of testing performed with the minor exception recorded below under Control Findings (Page 4: Sales Cut off).</p> <p>TSS – From the testing performed we identified a £100k management fee which had not been agreed with CEC at the financial year end. Accounting standards require it to be “highly probable” as at 31 March 2019 that the management fee would be received in order to recognise revenue. In the absence of an agreed position as at 31 March 2019, in our view the revenue was not “highly probable”. Therefore we have proposed this as an audit adjustment. We have also identified a control finding (see below) as there was no formal letter in place to agree the management fee with the council for 2018/19.</p>
<p>Management override of controls</p> <p>Under ISA 240 (UK) there is a presumed risk that the risk of management over-ride of controls is present in all entities</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> - We did not note any instances of management override of controls during the course of the audit.
<p>Disclosure of pension arrangements</p> <p>During the prior year audit of Cheshire East Council, a control deficiency was identified in respect of the fact that there is not a tripartite agreement in place between the company, the council and the administering authority of the pension scheme.</p> <p>A tripartite agreement would evidence which party is considered responsible by the pension scheme for any obligations to meet a shortfall in the plan assets to cover the post employment benefit obligations.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> - We understand that the CPF has now expressed willingness to put a tripartite agreement in place and has produced draft wording, with the aim that all parties will be signed up to a revised agreement by the end of 2019. - We have received confirmation from the Council’s legal team that, in their opinion, the deeds of variation provide clear acceptance by the Council that it has retained all the investment and actuarial risks for the pensions of the employees of the company.

	<ul style="list-style-type: none"> - We have also received confirmation from the pension fund that they consider the contribution arrangements for the companies to be fixed due to the compensation arrangement in place between the Council and the companies and they consider the Council has responsibility to adjust any variations in the companies actuarial contribution rates. - It would be optimal for a tripartite agreement to be in place, however on the basis of the evidence described above and the commitment of the Cheshire Pension Fund to put a tripartite agreement in place post year in order to regularise the arrangement (and as such this will not be an area of judgement in future periods), we are satisfied that managements treatment to account for the companies contributions to the scheme as if it were a defined contribution scheme is not materially incorrect. - We do however, continue to stress the importance of ensuring that a formal tripartite agreement is put in place as soon as possible and consistent with the prior year, we regard the fact that this has not been actioned sooner as a control observation.
<p>Going concern – ANSA / Orbitas / TSS / Civicance</p> <p>Cheshire East Council's review into the future of its subsidiary companies is still ongoing. The existence of an ongoing review into the company's future creates uncertainty about its ability as a going concern. At the planning stage, we therefore identified going concern as an area of focus of our audit.</p>	<p>Audit commentary</p> <ul style="list-style-type: none"> - The directors have assessed the suitability of the going concern assumption and in doing so have considered a period of not less than 12 months from the date of approval of the financial statements. - We have reviewed the companies 3 year budgets which shows that the companies have sufficient resources to continue in operation for the foreseeable future, assuming that no decisions to the contrary are made about its future by the council. - The companies have also received a letter of support from the council which states that no decisions have yet been taken as to the implementation of any changes to the company and that, any such changes be initiated as a consequence of the wider ongoing strategic review by CEC, they confirm that sufficient resources will be made available to allow the company to meet its liabilities as they fall due. The letter covers a period of 12 months from the date the company approves its financial statements for the year ended 31 March 2019.



	<ul style="list-style-type: none"> - On this basis, we concur with the management decision to prepare the financial statements on a going concern basis.
<p>Going concern – EOTN /SAGC</p> <p>At the planning stage we identified going concern as an area of focus for our audit based on our awareness that Cheshire East Council was conducting an ongoing review into the future of its subsidiary companies, including Engine of the North and The Skills & Growth Company.</p> <p>From discussions with management during the audit, we understand that a decision has now been taken that the services provided by EOTN/SAGC will be moved back into the Council and that the companies will cease to trade.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> - As a decision has now been taken which will result in the closure of EOTN/SAGC, the directors have chosen to prepare the financial statements on a cessation basis. We concur with the judgement. - As a consequence our audit report therefore includes an emphasis of matter paragraph in respect of the basis of preparation. An emphasis of matter paragraph is not a qualification of the audit opinion, but draws attention to the fact that the financial statements have been prepared on a going concern basis.
<p>Completeness of creditors</p> <p>At the planning stage we identified a risk that creditors could be understated or not recorded in the correct period.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> - We have not proposed any adjustments to creditors as a result of the work performed.
<p>Completeness of employee remuneration</p> <p>At the planning stage we identified a risk that employee remuneration could be understated or not recorded in the correct period.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> - We performed a payroll proof in total by reconciling payroll reports to the year end financial statements. - We reviewed a sample of starters and leavers to ensure that employees are accurately recorded on the month end payroll reports. - We identified one control finding in Ansa during the course of this testing, which is documented further on page 4 . - We did not note any other issues as a result of the work performed.
<p>Existence, accuracy and valuation of stock (Orbitas only)</p> <p>At the planning stage we identified a risk that stock quantities and prices may not be correctly recorded and that stock might not be valued at the lower of cost and net realisable value.</p>	<p>Auditor commentary</p> <ul style="list-style-type: none"> - Whilst we were satisfied our procedures have limited the risk of a material misstatement in this area, management's controls over stock are weak and need strengthening. See control findings on page 4.

Internal Control Findings by Company

ANSA

Assessment	Issue & Risk	Recommendations
	Sales cut off From our review of sales transactions around the year end we identified one sales transaction which had been recorded post year end, however related to the year ended 31 March 2019.	<ul style="list-style-type: none"> - Our work suggests that this was a one-off issue and isolated to rental income. The amount involved was trivial and therefore we have not proposed any adjustment to the financial statements. - Prior to the commencement of the external audit, we recommend that management perform a review of sales transactions posted around the year end to determine whether any additional sales require accruing at the year end.
	Signed resignation letter For one of the payroll leavers we selected for testing during the year. HR were unable to provide a copy of a signed resignation letter for us to review.	<ul style="list-style-type: none"> - We were able to review alternative documentation for audit purposes, in the form of a screenshot of an Oracle notification. - We recommend that going forward, best practice would be to ensure all copies of signed resignation letters are retained.

ORBITAS

	Stock valuation could not be vouched to supporting documentation Due to the lack of supporting documentation obtained on the valuation of stock, we have obtained management representation on the value at year end for 2018/19.	<ul style="list-style-type: none"> - We recommend management obtain and review supporting documentation before any price changes are made to ensure stock valuation is accurate.
	Stock take procedures When attending the stock count, we were unable to re-perform a count from physical stock to year end listing. This was due to stock items not having a unique reference.	<ul style="list-style-type: none"> - We recommend that all stock items are allocated a unique stock reference and a sticker including this reference is attached to all stock items held on site. This will ensure the entity will be able to complete a stock count from stock held on site to stock included on the system.

Assessment:



Deficiency – risk of inconsequential misstatement.



Significant deficiency – risk of significant misstatement.

TSS

X	Management fee contract In the prior year we reported that there was no formal letter in place to agree the management fee with the council for 2017/18	<ul style="list-style-type: none"> - We understand that there was also no formal letter in place to agree the management fee with the council for 2018/19. - We recommend that a management fee letter is drawn up each year, to formalise the agreed income from the council.
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Assessment:**X** – Not yet addressed**Y** – Action completed