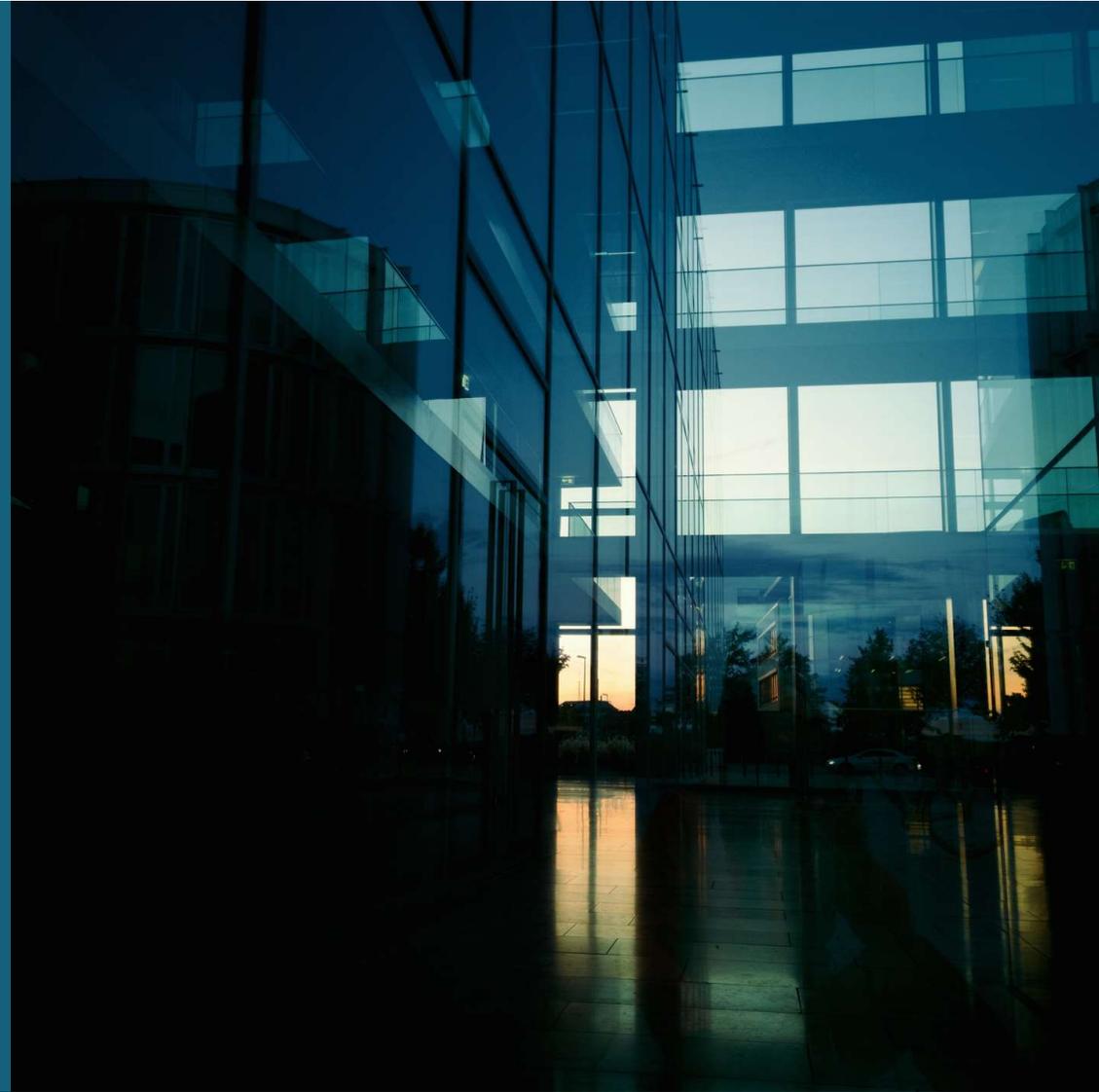


# Audit Completion Report

Cheshire East Council – Year ended 31  
March 2021

January 2022



# Contents

- 01** Executive summary
- 02** Status of the audit
- 03** Audit approach
- 04** Significant findings
- 05** Internal control recommendations
- 06** Summary of misstatements
- 07** Value for Money

Appendix A: Draft management representation letter

Appendix B: Draft audit report

Appendix C: Independence

Appendix D: Other communications

Our reports are prepared in the context of the 'Statement of Responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited. Reports and letters prepared by appointed auditors and addressed to the Council are prepared for the sole use of the Council and we take no responsibility to any member or officer in their individual capacity or to any third party. Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales.



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7 January 2022

Dear Members

### **Audit Completion Report – Year ended 31 March 2021**

We are pleased to present our Audit Completion Report for the year ended 31 March 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 27 May 2021. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate. We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact me on 07795 506766.

Yours faithfully

Mark Dalton

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# 01

Section 01:  
**Executive summary**

# 1. Executive summary

## Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2020/21 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls
- Net defined benefit liability valuation
- Valuation of property, plant and equipment including investment properties
- Transition to new financial management system
- Private Finance Initiative (PFI)
- Recognition of Covid-19 Government grants

Section 5 sets out internal control recommendations and section 6 sets out audit misstatements. Section 7 outlines our work on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources.

## Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2021.

At the time of preparing this report there are some matters remaining outstanding as outlined in section 2. We will provide an update to you in relation to the significant matters outstanding through a follow up letter.

Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:



### Audit opinion

We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.



### Value for Money

We have not yet completed our value for money arrangements work and will report our findings in our Auditor's Annual Report later in the year. On the basis of the work completed to date we do not anticipate having significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. Further detail on our value for money arrangements work is provided in section 7 of this report.



### Whole of Government Accounts (WGA)

We have not yet received group instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.



### Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have received correspondence and questions from a member of the public. We are currently considering the matters raised.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

# 02

Section 02:

**Status of the audit**

## 2. Status of the audit

Our work is nearing completion and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters	
IT General Controls testing		We are awaiting information to complete our IT general controls testing.	 Likely to result in material adjustment or significant change to disclosures within the financial statements.
Transition to new financial management system		Linked to the above, outstanding IT work includes review of the migration of data from the old to the new financial management system (linked to the enhanced risk on page 15).	
Whole of the government accounts (WGA)		We have not yet received instructions from the National Audit Office in respect of our work on the Council's WGA submission. We are unable to commence our work in this area until such instructions have been received.	 Potential to result in material adjustment or significant change to disclosures within the financial statements.
Financial statements, Annual Governance Statement (AGS) and letter of representation		We will complete our final review of the Statements of Accounts upon receipt of the signed version of the financial statements, AGS and letter of representation.	 Not considered likely to result in material adjustment or change to disclosures within the financial statements.
Audit review and quality control		Completion of Manager and Partner review and Mazars quality control processes in respect of the audit.	

We will provide the Audit and Governance Committee with an update in relation to these outstanding matters in a follow-up letter, prior to signing the auditor's report.



# 03

## Section 03: **Audit approach**

### 3. Audit approach

#### Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum presented to Audit, Governance and Standard Committee in July 2021. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

#### Materiality

Our provisional materiality at the planning stage of the audit was set at £14.1m for the Group financial statements and £14.0m for the Council single-entity statements using a benchmark of 2% of gross expenditure at the Surplus/Deficit at Net Cost of Services level. Our final assessment of materiality, based on the final financial statements and qualitative factors has remained unchanged.

#### Service organisations

International Auditing Standards (UK) (ISAs) define service organisations as third-party organisations that provide services to the [Council] that are part of its information systems relevant to financial reporting. We are required to obtain an understanding of the services provided by service organisations as well as evaluating the design and implementation of controls over those services. We have not identified any relevant service organisations

Item of account	Service organisation	Audit approach
Payroll, non-pay expenditure and other transactional items of account	Cheshire transactional services shared services	We obtained assurance by understanding the process and controls that the Council has in place to assure itself that transactions are processed materially correctly. Our testing include sample testing of transactions based on evidence available from the Council rather than the Shared Service.

There are no reporting matters to highlight from our consideration of the work of service organisations.

#### Use of experts

We set out in our Audit Strategy Memorandum our planned use of experts to assist in our audit procedures. The only change since our audit strategy memorandum relates to our expert used to review the valuation of the Manchester Airport Land for which we have used our in-house valuation team. The table sets out all experts used.

Item of account	Management's expert	Our expert
Defined benefit pension assets and liabilities	Actuary (Hyman Robertson)	PwC – NAO's consulting actuary
Property, Plant and Equipment and Investment Property valuation	Montagu Evans and Farms Estate Shared Service	We used available third party information to challenge the key valuation assumptions
Financial instrument disclosures	Arlingclose Treasury Advisors	Mazars in-house valuation team

There are no reporting matters to highlight from our consideration of the work of experts.



# 3. Audit approach

## Group audit approach

The Council's group structure for 2020/21 includes four wholly owned subsidiary companies, Cheshire East Residents First Limited (CERF), ANSA Environmental Services Limited, Transport Service Solutions Limited and Orbitas Bereavement Services Limited.

Our approach to the Group audit reflected the size and complexity of the transactions from the subsidiary companies that are consolidated into the Council's Group financial statements. Our approach is outlined below, and we confirm there are no changes to the planned approach set out in our Audit Strategy Memorandum.

Group component	Approach adopted	Key points or other matters to report
Cheshire East Council		The Mazars audit team undertook the full audit of the Council
Cheshire East Residents First Limited (CERF)		Non-significant component, with assurance gained from analytical procedures supported by a review of the Council's consolidation processes. Given the size and complexity of the subsidiary we did not seek specific assurances over transactions and balances from the component auditors of the subsidiary company, and we did not identify any significant risks for Group accounts purposes in relation to this component
ANSA Environmental Services Limited		Non-significant component, with assurance gained from analytical procedures supported by a review of the Council's consolidation processes. Given the size and complexity of the subsidiary we did not seek specific assurances over transactions and balances from the component auditors of the subsidiary company, and we did not identify any significant risks for Group accounts purposes in relation to this component
Transport Service Solutions Limited		Non-significant component, with assurance gained from analytical procedures supported by a review of the Council's consolidation processes. Given the size and complexity of the subsidiary we did not seek specific assurances over transactions and balances from the component auditors of the subsidiary company, and we did not identify any significant risks for Group accounts purposes in relation to this component
Orbitas Bereavement Services Limited		Non-significant component, with assurance gained from analytical procedures supported by a review of the Council's consolidation processes. Given the size and complexity of the subsidiary we did not seek specific assurances over transactions and balances from the component auditors of the subsidiary company, and we did not identify any significant risks for Group accounts purposes in relation to this component

**Full audit**  
Performance of an audit of the component's financial information prepared for group reporting purposes using component materiality

**Audit of balances and/or disclosures**  
Performance of an audit of specific balances and/or disclosures included in the component's financial information prepared for group reporting purposes, using component materiality

**Specific audit procedures**  
Performance of specific audit procedures on the component's financial information

**Review procedures**  
Review of the component's financial information prepared for group reporting purposes using the component materiality assigned



# 04

## Section 04: **Significant findings**

# 4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 17 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Management override of controls	Description of the risk
	<p>This is a mandatory significant risk on all audits due to the unpredictable way in which such override could occur.</p> <p>Management at various levels within an organisation is in a unique position to perpetrate fraud because of the ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur there is a risk of material misstatement due to fraud on all audits.</p>
	<p><b>How we addressed this risk</b></p> <p>We addressed this risk through performing audit work over:</p> <ul style="list-style-type: none"> <li>• Accounting estimates impacting amounts included in the financial statements;</li> <li>• Consideration of identified significant transactions outside the normal course of business; and</li> <li>• Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li> </ul>
	<p><b>Audit conclusion</b></p> <p>Our work on management override of controls is complete and there are no matters to bring to the Committee’s attention.</p>



# 4. Significant findings

## Significant risks (continued)

**Valuation of Property, Plant & Equipment (PPE) and Investment Properties**

**Description of the risk**

The financial statements contain material entries on the Balance Sheet as well as material disclosure notes in relation to the Council's holding of PPE and investment properties. The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued in a five year cycle.

The valuation of Property, Plant & Equipment involves the use of a management expert (the valuer), and incorporates assumptions and estimates which impact materially on the reported value. There are risks relating to the valuation process which reflect the significant impact of the valuation judgements and assumptions and the degree of estimation uncertainty.

As a result of the rolling programme of revaluations, there is a risk that individual assets which have not been revalued for up to four years are not valued at their materially correct fair value. In addition, as the valuations are undertaken at the start of the year there is a risk that the fair value as the assets is materially different at the year end.

**How we addressed this risk**

- Our audit procedures included:
- Critically assessing the Council's valuer's qualifications, objectivity and independence to carry out such valuations.
  - Reviewing and challenging the valuation methodology used, including testing the underlying data and assumptions.
  - Reviewing the approach that the Council has adopted to address the risk that assets not subject to valuation in 2020/21 are materially misstated .
  - Considering the robustness of that approach in light of the valuation information reported by the Council's valuers.
  - Considering the movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.
  - Sample testing the completeness and accuracy of underlying data provided by the Council and used by the valuer as part of their valuations.
  - In line with 2019/20 and the continuing Covid-19 pandemic, monitoring the valuation approach and whether a material uncertainty disclosure was required for 2020/21.

**Audit conclusion**

Our work in relation to the valuation of PPE and Investment Properties is complete. Other than the immaterial misstatements detailed in section 6 of this report and the associated control recommendation in section 5, there are no matters to bring to the Committee's attention.

Our work has provided assurance that no material valuation uncertainty disclosure is required for 2020/21.



## 4. Significant findings

### Significant risks (continued)

#### Valuation of the defined benefit pension liability

##### Description of the risk

The net pension liability represents a material element of the Council is an admitted body of the Cheshire Pension Fund (CPF). which had its last triennial valuation completed as at 31 March 2019.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation, such as the discount rate, inflation rates and mortality rates. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2020/21.

##### How we addressed this risk

Our audit procedures included:

- Critically assessing the competency, objectivity and independence of the CPF's Actuary, Hyman Robertson
- Liaising with the auditors of the Cheshire Pension Fund to gain assurance that the controls in place at the Pension Fund are operating effectively. This includes the processes and controls in place to ensure data provided to the Actuary by the Pension Fund for the purposes of the IAS19 valuation is complete and accurate.
- Reviewing the appropriateness of the Pension Asset and Liability valuation methodologies applied by the Pension Fund Actuary, and the key assumptions included within the valuation. This includes comparing them to expected ranges, utilising information provided by PWC, consulting actuary engaged by the National Audit Office.
- Agreeing the data in the IAS 19 valuation report provided by the Fund Actuary for accounting purposes to the pension accounting entries and disclosures in the Council's financial statements
- In line with 2019/20 and the continuing Covid-19 pandemic, monitoring the valuation approach and whether a material uncertainty disclosure was required for 2020/21.

##### Audit Conclusion

Our work in relation to the valuation of the defined benefit pension liability is complete. Through our work, the Council requested a revised IAS19 valuation report (to up date investment returns from estimates to actuals as at 31 March 2021). The revised IAS19 report amended the net pension liability by £11.36m. As detailed on page 23 of this report, this amendment has been actioned within the Council's revised financial statements. Other than this amendment, there are no matters to bring to the Committee's attention and our work has provided assurance that no material valuation uncertainty disclosure is required for 2020/21.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

# 4. Significant findings

## Key areas of management judgement and enhanced risks

### Transition to new financial management system

#### Description of the risk

In the current year, the Council implemented a new financial management system on 8 February 2021. Migrating the general ledger transaction, balances and sub-ledger details from Oracle System to Unit4 ERP system (previously known as Agresso).

The transfer/migration of data from the old to the new finance system is a significant event that involves all-encompassing planning and arrangements to ensure that the management review and governance of the process continued.

Also to ensure that the new financial management system delivers the results as expected and that there is no loss of data during the migration.

#### How we addressed this risk

Our audit procedures included

- Reviewing the arrangements for transferring data from the previous old financial management system (Oracle) to new financial system (Unit4 ERP).
- Comparing data from new system to the old system to confirm completeness and accuracy..
- Reviewing the Council's own assurance over completeness and accuracy of closing balance in the previous ledger system to the opening balance entries in the new ledger system including any prior period adjustments (where required by accounting standards).
- Carrying out our review of the new system to confirm whether the system delivers the expected results.

#### Audit conclusion

Our work is still ongoing (as set out in Section 2). However, based on the work carried out to date, there are no matters to bring to the Committee's attention



# 4. Significant findings

## Key areas of management judgement and enhanced risks

**Private Finance Initiative (PFI)**

**Description of the risk**

The Council has no new PFI schemes in 2020/21, and continues to make judgements that result in the Council accounting for the PFI assets and liabilities in its financial statements

**How we addressed this risk**

We have considered the continued accounting treatment of the PFI scheme assets and liabilities as being in the Council's financial statements. In addition we considered the Council's accounting treatment of the impact of the fire which destroyed one of the Council's PFI buildings.

**Audit conclusion**

Our work is complete. There are no matters to bring to the Committee's attention.

**Recognition of Covid-19 Government grants**

**Description of the risk**

Throughout 2020/21, the Government has provided substantial sums of grant support to local authorities including general support grant, the Income Compensation and Job Retention schemes and grants that have been passed through to businesses. The Council needs to ensure it applies the correct accounting treatment for these funds.

We therefore identified the completeness and accuracy of this income as an enhanced audit risk for 2020/21.

**How we addressed this risk**

Our audit procedures included:

- Reviewing the Council's approach in determining whether grants are ringfenced for specified areas of expenditure;
- Testing grant income recorded in the ledger to grant allocations/ notifications; and
- Reviewing a sample of grants to establish whether conditions to recognise the income in 2020/21 have been met.

**Audit conclusion**

Our work is complete. Based on the results of our testing, including whether the Council was acting as an agent or principal and whether any grant conditions have been met sufficient to recognise the income, there are no matters to bring to the Committee's attention.



## 4. Significant findings

### Qualitative aspects of the Council's accounting practices

We have reviewed the Council's accounting policies and disclosures and concluded they comply with the 2020/21 Code of Practice on Local Authority Accounting, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 20 September 2021. The accounts were of a good quality and supporting working papers have been made available and these have assisted our audit progress. Council finance officers have been very helpful in answering our detailed audit queries. However, pressures on the finance team have meant that some of the work has taken longer than expected to conclude, particularly where responses are required from outside of finance.

### Significant matters discussed with management

During the audit we maintained a regular dialogue with Council officers. Among the matters discussed through these conversations were:

Audit fee variations - as a result of independent quality reviews of our audit work and that of other audit suppliers, in particular by the Financial Reporting Council, we have needed to increase the level of work we do on defined benefit pension schemes and valuation of property, plant and equipment. This and other issues emerging during the year have had an impact on the fee required to complete the audit and we will discuss any fee variation request with Management on completion of our audit work and update the Committee. As set out in our ASM all fee variation requests are subject to approval from PSAA..

### Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties. We have had the full co-operation of management. It is however worth noting that the impact of the COVID-19 pandemic on the audit was significant for a second audit year. Although we have had the full co-operation of the finance team and Council management through the audit, the remote working of our audit team and the Council's staff has inevitably meant that the audit work took longer to complete and finalise than would ordinarily be the case.

### Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2020/21 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have received correspondence and questions from a member of the public. We are currently considering the matters raised.

# 05

Section 05:

**Internal control recommendations**

# 5. Internal control recommendations

The purpose of our audit was to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements in order to design audit procedures to allow us to express an opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of internal control or to identify any significant deficiencies in their design or operation.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our findings and recommendations are set out below. We have assigned priority rankings to each of them to reflect the importance that we consider each poses to your organisation and, hence, our recommendation in terms of the urgency of required action. In summary, the matters arising fall into the following categories:

Priority ranking	Description	Number of issues
1 (high)	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	0
2 (medium)	In our view, there is a need to strengthen internal control or enhance business efficiency. The recommendations should be actioned in the near future.	2
3 (low)	In our view, internal control should be strengthened in these additional areas when practicable.	0



# 5. Internal control recommendations

## Other deficiencies in internal control – Level 2

### Description of deficiency

The Council's wholly owned companies (ANSA Environmental Services Limited, Orbitas Bereavement Services Limited, Tatton Park Enterprises Limited and Transport Services Solutions Limited) did not in 2020/21 comply with the publication scheme requirements of the Freedom of Information Act 2000.

Whilst the Council, as the 'owning' public authority, is, per the Information Commissioner's Office (ICO) guidance, only responsible for raising awareness of these responsibilities with the wholly owned companies, the Council could have done so more proactively.

We understand that steps have been taken in early 2021/22 to ensure full compliance going forward.

### Potential effects

.In the absence of more proactive encouragement and shareholder agreement management by the Council, there is a risk that the Council's wholly owned companies will continue to fail to fully comply with the publication scheme requirements of the Freedom of Information Act 2000.

### Recommendation

The Council should proactively, and as a minimum on an annual basis, ensure the wholly owned companies are complying with the publication scheme requirements of the Freedom of Information Act 2000.

### Management response

Agreed.

## Other deficiencies in internal control – Level 2

### Description of deficiency

During our testing of property, plant and equipment (PPE) we found instances where the land values within the Council's accounts were overstated. These instances totalled £10.1m and related to land under shared ownership where the land area owned by the third party had not been removed from the Council's asset base and associated valuation report. Appropriate review of the Council's valuer's valuation report should have identify such errors.

### Potential effects

The absence of appropriate review of the valuer's valuation report may lead to incorrect valuations of land or other PPE being undetected and misstated balances being incorporated within the Council's financial statements.

### Recommendation

The Council should ensure appropriate review of the valuer's valuation report prior to incorporating the values within the financial statements.

### Management response

The Council will ensure that the plans are checked prior to issue to the external valuers to ensure that the mapped boundaries only include CEC owned land.

The Council will ensure there is appropriate review of the valuation report prior to incorporating the values within the financial statements.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

# 06

Section 06:

**Summary of misstatements**

# 6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £420k. The first table outlines the misstatements that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not currently plan to adjust.

The second table outlines the misstatements that have been adjusted by management during the course of the audit.

Unadjusted misstatements		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Property, plant and equipment			881	
	Cr: Revaluation reserves				881
	Being the extrapolation of the identified and adjusted error (of £474k relating to Buildings 3 - King George V Playing Fields) to the remaining / untested population				
	<b>Total unadjusted misstatements</b>			<b>881</b>	<b>881</b>



## 6. Summary of misstatements (continued...)

### Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1	Dr: Net pension liabilities			11,360	
	Cr: Other Comprehensive Income				11,360
<p>Projected investment returns were used by the actuary in their original IAS19 valuation report. The projected or estimated return for the period was 16.2% for the OPEN fund assets. At the Council's request the actuary issued a revised IAS19 report based on actual investment returns for the period (17.1%). Asset values have increased from the estimated figure of £1,506,013,000 to £1,517,373,000 - an increase of £11,360,000.</p>					
2	Dr: Finance Lease Creditors (Balance Sheet)			1,060	
	Cr: Finance Lease Debtors (Balance Sheet)				1,060
<p>The Council has an arrangement in place where by they pay management fees to HQ theatres for the running of the Lyceum theatre and this was treated as a finance lease (both under lessor and lessee) which does not meet the finance lease requirements per the code.</p>					
3	Dr: Gross Income (Corporate and Central services)	1,976			
	Cr: Taxation and non-specific Grant Income		1,976		
<p>Being incorrect classification of grant income to the central services gross income.</p>					

Executive summary

Status of audit

Audit approach

Significant findings

Internal control recommendations

Summary of misstatements

Value for Money

Appendices

# 6. Summary of misstatements (continued....)

## Adjusted misstatements

		Comprehensive Income and Expenditure Statement		Balance Sheet	
		Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
4	Dr: Revaluation reserves			10,100	
	Cr: Property, plant and equipment				10,100
Being adjustment for incorrectly including land area owned by third parties within the valuation report - causing overstatement of PPE balances within the Statement of Accounts					
5	Dr: Property, plant and equipment			474	
	Cr: Revaluation Reserves				474
Being adjustment for incorrectly including the revalued amount within the fixed asset register in relating to Buildings 3- King George V Playing Fields					
<b>Total adjusted misstatements</b>		<b>£1,976</b>	<b>£1,976</b>	<b>£22,994</b>	<b>£22,994</b>



## 6. Summary of misstatements (continued....)

### Disclosure amendments

During our audit we identified a small number of adjustments to the disclosures in the accounts. These have been adjusted by management.

- **Accounting policies** –A number of revisions to ensure the accounts reflect the requirements of the Code in relation to restatement of comparative information and PPE.
- **Casting errors** – There were some instances of casting and cross casting errors within the group and entity accounts.
- **Note 23 Audit Cost** - Current and prior year figures did not reflected agreed audit fees.
- **Note 29 Leases**- The leases disclosure note was materially misstated due to formula errors within the working paper and the use of incorrect lease duration.

Executive summary

Status of audit

Audit approach

Significant findings

Internal control  
recommendations

Summary of  
misstatements

Value for Money

Appendices

# 07

## Section 07: Value for Money

# 7. Value for Money

## Approach to Value for Money

We are required to consider whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out and sets out the reporting criteria that we are required to consider. The reporting criteria are:

- **Financial sustainability** - How the Council plans and manages its resources to ensure it can continue to deliver its services
- **Governance** - How the Council ensures that it makes informed decisions and properly manages its risks
- **Improving economy, efficiency and effectiveness** - How the Council uses information about its costs and performance to improve the way it manages and delivers its services

At the planning stage of the audit, we undertake work to understand the arrangements that the Council has in place under each of the reporting criteria and we identify risks of significant weaknesses in those arrangements. Although we describe this work as planning work, we keep our understanding of arrangements under review and update our risk assessment throughout the audit to reflect emerging issues that may suggest significant weaknesses in arrangements exist.

Where our risk-based procedures identify actual significant weaknesses in arrangements we are required to report these and make recommendations for improvement. Where such significant weaknesses are identified, we report these in the audit report.

The primary output of our work on the Council's arrangements is the commentary on those arrangements that forms part of the Auditor's Annual Report. We will issue the Auditor's Annual Report within three months of the date of our opinion.

## Status of our work

We are yet to complete our work in respect of the Council's arrangements for the year ended 31 March 2021. At the time of preparing this report, we have not identified any significant weaknesses in arrangements that require us to make a recommendation, however we continue to undertake work on the Council's arrangements.

Our draft audit report at Appendix B outlines that we have not yet completed our work in relation to the Council's arrangements. As noted above, our commentary on the Council's arrangements will be provided in the Auditor's Annual Report within three months of the date of our opinion.



# Appendices

A: Draft management representation letter

B: Draft audit report

C: Independence

D: Other communications

# Appendix A: Draft management representation letter

To be provided to us on client headed note paper

[Date]

Dear Mark

**Cheshire East Council - audit for year ended 31 March 2021**

This representation letter is provided in connection with your audit of the financial statements of Cheshire East Council ('the Council') for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) and applicable law.

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy myself that I can properly make each of the following representations to you.

**My responsibility for the financial statements and accounting information**

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code and applicable law.

**My responsibility to provide and disclose relevant information**

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Council you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Director of Finance & Customer Services that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information.

As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

**Accounting records**

I confirm that all transactions that have a material effect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Council, Cabinet and committee meetings, have been made available to you.



# Appendix A: Draft management representation letter (continued)

### Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Council 's financial position, financial performance and cash flows.

### Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Council in making accounting estimates, including those measured at current or fair value, are reasonable.

### Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.

There are no undisclosed contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Council have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code and applicable law.

### Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom.

The Council has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.



# Appendix A: Draft management representation letter (continued)

### Fraud and error

I acknowledge my responsibility as Director of Finance & Customer Services for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Council involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

### Related party transactions

I confirm that all related party relationships, transactions and balances, have been appropriately accounted for and disclosed in accordance with the requirements of the Code and applicable law.

I have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which I am aware.

### Charges on assets

All the Authority's assets are free from any charges exercisable by third parties except as disclosed within the financial statements.

### Impairment review

To the best of my knowledge, there is nothing to indicate that there is a permanent reduction in the recoverable amount of the property, plant and equipment below their carrying value at the balance sheet date. An impairment review is therefore not considered necessary.



# Appendix A: Draft management representation letter (continued)

**Future commitments**

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

**Subsequent events**

I confirm all events subsequent to the date of the financial statements and for which the Code and applicable law, require adjustment or disclosure have been adjusted or disclosed.

Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly.

**Covid-19**

I confirm that the Council has carried out an assessment of the potential impact of the Covid-19 Virus pandemic on the Council, including the impact of mitigation measures and uncertainties, and that the disclosures in the Narrative Report fairly reflects that assessment.

**Going concern**

To the best of my knowledge there is nothing to indicate that the Council not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts.

**Unadjusted misstatements**

I confirm that the effects of the uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. All uncorrected misstatements are included in the Appendix to this letter.

Yours faithfully

Alex Thompson  
Director of Finance & Customer Services



# Appendix B: Draft audit report

## Independent auditor’s report to the members of Cheshire East Council

### Report on the audit of the financial statements

#### Opinion on the financial statements

We have audited the financial statements of Cheshire East Council ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2021, which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Movement in Reserves Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Collection Fund, and notes to the financial statements, including a summary of significant accounting policies. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2021 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

#### 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 section of our report. We are independent of the Council and Group 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.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Director of Finance & Customer Services use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Director of Finance & Customer Services with respect to going concern are described in the relevant sections of this report.



# Appendix B: Draft audit report

## Other information

The Director of Finance and Customer Services is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the 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 obtained in the audit 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.

## Responsibilities of the Director of Finance and Customer Services for the financial statements

As explained more fully in the Statement of the Director of Finance & Customer Services Responsibilities, the Director of Finance & Customer Services 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 2020/21, and for being satisfied that they give a true and fair view. The Director of Finance and Customer Services is also responsible for such internal control as the Director of Finance and Customer Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance and Customer Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and prepare the financial statements on a going concern basis, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Director of Finance and Customer Services is responsible for assessing each year whether or not it is appropriate for the Council and Group to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

## 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Council, we identified that the principal risks of non-compliance with laws and regulations related to the Local Government Act 2003 (and associated regulations made under section 21), the Local Government Finance Acts of 1988, 1992 and 2012, and the Accounts and Audit Regulations 2015, and we considered the extent to which non-compliance might have a material effect on the financial statements.



# Appendix B: Draft audit report

We evaluated the Director of Finance & Customer Services incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- discussing with management and the Accounts and Audit Committee the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Council and the Group which were contrary to applicable laws and regulations, including fraud.

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management and the Accounts and Audit Committee on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management and the Accounts and Audit Committee. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Director of Finance & Customer Services use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in April 2021.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

### Matter on which we are required to report by exception

We are required to report to you if, in our view, we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have not completed our work on the Council's arrangements. On the basis of our work to date, having regard to the guidance issued by the Comptroller and Auditor General in April 2021, we have not identified any significant weaknesses in arrangements for the year ended 31 March 2021.



# Appendix B: Draft audit report

We will report the outcome of our work on the Council's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

## Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure 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 arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council 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 Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our work in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021.

## Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## Use of the audit report

This report is made solely to the members of Cheshire East Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 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 members of the Council 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 members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.



# Appendix B: Draft audit report

## Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed:

- the work necessary to issue our assurance statement in respect of the Council’s Whole of Government Accounts consolidation pack;
- the work necessary to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and

[Signature]

Mark Dalton, Key Audit Partner

For and on behalf of Mazars LLP

5<sup>th</sup> Floor, 3 Wellington Place

Leeds

LS1 4AP

XX January 2022



# Appendix C: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.



# Appendix D: Other communications

Other communication	Response
<b>Compliance with Laws and Regulations</b>	<p>We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations.</p> <p>We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.</p>
<b>External confirmations</b>	<p>We did not experience any issues with respect to obtaining external confirmations.</p> <p>We are however waiting for external confirmations relating to a number of the Council's bank accounts due to delays in us being made aware of the new bank accounts which have been opened in the year.</p>
<b>Related parties</b>	<p>We did not identify any significant matters relating to the audit of related parties.</p> <p>We will obtain written representations from management confirming that:</p> <ul style="list-style-type: none"> <li>a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and</li> <li>b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.</li> </ul>
<b>Going Concern</b>	<p>We have not identified any evidence to cause us to disagree with the Director of Finance &amp; Customer Services that Cheshire East Council will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements.</p> <p>We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.</p>

# Appendix D: Other communications

Other communication	Response
<b>Subsequent events</b>	<p>We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor’s report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework.</p> <p>We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.</p>
<b>Matters related to fraud</b>	<p>We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, and the Chair of the Audit, Governance and Standard Committee, confirming that</p> <ol style="list-style-type: none"> <li>a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud;</li> <li>b. they have disclosed to the auditor the results of management’s assessment of the risk that the financial statements may be materially misstated as a result of fraud;</li> <li>c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving:               <ol style="list-style-type: none"> <li>i. Management;</li> <li>ii. Employees who have significant roles in internal control; or</li> <li>iii. Others where the fraud could have a material effect on the financial statements; and</li> </ol> </li> <li>d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity’s financial statements communicated by employees, former employees, analysts, regulators or others.</li> </ol>

# Mark Dalton, Director – Public Services

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Mazars is an internationally integrated partnership, specialising in audit, accountancy, advisory, tax and legal services\*. Operating in over 90 countries and territories around the world, we draw on the expertise of 40,400 professionals – 24,400 in Mazars' integrated partnership and 16,000 via the Mazars North America Alliance – to assist clients of all sizes at every stage in their development.

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