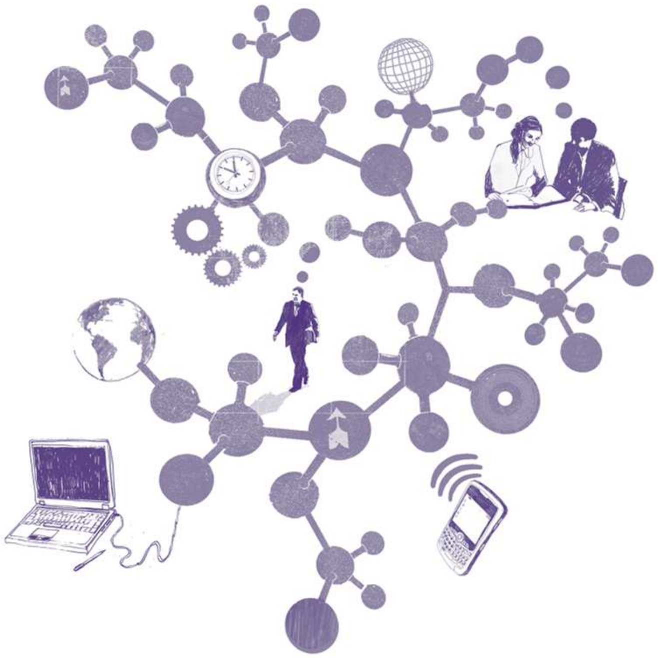
Grant Thornton

The Audit Findings for Cheshire East Council

Year ended 31 March 2013

19 September 2013



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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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Cheshire East Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change the planned approach we set out to you in our Audit Plan in March 2013.

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

- Whole of Government Accounts;
- obtaining and reviewing the final management letter of representation;
- review of the final version of the Annual Governance Statement;
- updating post balance sheet events to the date of the opinion and;
- our final review of the audit file.

Key issues arising from our audit

Financial statements opinion

We expect to provide an unqualified opinion on the financial statements.

Our audit work has not identified any adjustments affecting the Council's reported financial position. The draft and audited financial statements record net expenditure of £436m. We have agreed with officers a number of adjustments to improve the presentation and disclosure of the financial statements.

The key messages arising from our audit of the financial statements are:

- no issues were identified which impact on the Council's reserves;
- the improvements noted in 2011/12 in the quality of the accounts presented for audit and in the working papers have been maintained. In addition the quality assurance arrangements on the production of the accounts improved;
- officers were available throughout our audit fieldwork to provide additional supporting information in a timely manner and to resolve our queries;
- management agreed to adjust all the errors identified during the audit. There are no unadjusted errors in the accounts;
- we identified some potential differences in the accounting treatment of the PFI scheme. These differences may lead to lower liability values in the Council's accounts. Any differences are unlikely to be material. The Chief Operating Officer has agreed to review the accounting treatment as part of the 2013/14 closedown.

Further details are set out in section 2.

Value for money conclusion

We have some concerns about whether Cheshire East Council has proper arrangements to secure value for money in its use of resources. We expect to issue a qualified opinion that draws attention to those concerns by the 30 September deadline.

While we have concluded that the Council has adequate arrangements in place to secure financial resilience our work has identified areas where further improvements can be made. We also conclude that the Council has adequate arrangements for securing economy efficiency and effectiveness except for weaknesses in its:

- arrangements to procure goods and services;
- understanding of costs and performance; and
- arrangements to develop business proposals and manage significant projects.

With the exception of these matters, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

The Council made significant improvements to its arrangements to secure financial resilience, developing business proposals and managing major projects during the second half of 2012-13. These improvements address the weaknesses reported by the Audit Commission last year but were not in place for the whole of 2012-13.

Further details of our work on Value for Money is set out in section 3.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Our work has not identified any significant control weaknesses which we wish to highlight for your attention.

Further details are provided within section 2.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Interim Chief Operating Officer.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Interim Chief Operating Officer and the finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2013

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Governance Committee on 28 March 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 28 March 2013.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion on the accounts and an "except for" VFM conclusion. Our audit opinion is set out at Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	• review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions.	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess whether those controls are designed effectively • tested operating expenses including for unrecorded liabilities, whether the expense is valid, that the cost is recorded in the correct expenditure code and that VAT has been correctly treated.	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period	We have undertaken the following work in relation to this risk: • documentation of our understanding of processes and key controls over the transaction cycle • walkthrough of the key controls to assess whether those controls are designed effectively • substantive testing of payables and accruals including: I. test of a sample of payables and accruals II. testing a sample of expenditure items III. assessment of robustness of assumptions and estimates underlying accruals and provisions	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Remuneration expenses not correct	We have undertaken the following work in relation to this risk: • documentation of our understanding of processes and key controls over the transaction cycle • walkthrough of the key controls to assess whether those controls are designed effectively • substantive testing of employee remuneration expenditure including I. analytical procedure to determine whether movements in salaries and other pay related costs are reasonable and materially correct II. substantive testing on a sample of pay costs III. agreement of related disclosures to the payroll system or other appropriate source document.	Our audit work identified errors in the compilation of Note 25 Officers' Remuneration (numbers in pay bandings incorrect), Note 26 Officers' Remuneration (salary costs understated for 3 officers), and Note 27 Termination Benefits (both amount and numbers of termination packages understated).
Welfare expenditure	Welfare benefits improperly computed	We have undertaken the following work in relation to this risk: • documentation of our understanding of processes and key controls over the transaction cycle • walkthrough of the key controls to assess whether those controls are designed effectively • substantive testing of welfare expenditure.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	PPE activity not valid	We have undertaken the following work in relation to this risk: • documentation of our understanding of processes and key controls over the transaction cycle • walkthrough of the key controls to assess whether those controls are designed effectively • substantive testing of property, plant and equipment including existence, additions and disposals.	Our audit work has not identified any significant issues in relation to the risk identified.
Property, plant & equipment	Revaluation measurement not correct	We have undertaken the following work in relation to this risk: • documentation of our understanding of processes and key controls over the transaction cycle • walkthrough of the key controls to assess whether those controls are designed effectively • substantive testing of property, plant and equipment valuation.	Our audit work identified that revaluation losses and accumulated depreciation had not been properly disclosed in the Property, Plant and equipment note (Note 6). The net book value at 31 March 2013 is however unaffected. Some potential differences in the Council's accounting treatment of its PFI scheme. These differences may lead to lower liability values in the Council's accounts. Any differences are unlikely to be material. The Council has agreed to review the accounting treatment in 2013-14. Land associated with the Extra Care PFI scheme is overstated by £4.9m and has been removed from the asset register.

Audit findings against other risks

Review of Information Technology (IT) Controls

As part of our planned programme of work, our information systems specialist team undertook a high level review of the general IT control environment at the Council. This was undertaken as part of the review of the internal controls system and included a follow up of the issues that had been raised by the previous auditor, the Audit Commission. We are pleased to report that no significant issues arose from our work, however, we identified a number of minor areas where the Council's existing IT arrangements can be further developed including :

- review of password settings for the Northgate application and consider implementing stricter password complexity rules
- ensure all leavers have their Northgate access rights revoked in a timely manner
- provide documented policies and procedures covering batch administration, monitoring and error handling in Northgate Revenues and Benefits.
- transfer of responsibility for administration security in Oracle Financials to IT system administrators without programming duties
- programmers should not have anything other than read only access to production environments
- periodic review of user accounts and group membership assignments in the active directory for appropriateness
- password complexity should be enforced within Oracle Financials.

Our recommendations are set out in Appendix A.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income is accounted for in the year the activity it relates to takes place, i.e. on accruals basis. • Income is recorded when it is earned and not received.	• The Council's approach to accounting for income is robust and in accordance with industry practice • Disclosure of the revenue recognition policy is adequate .	Green
Judgements and estimates	• Key estimates and judgements include : – useful life of capital equipment – pension fund valuations and settlements – revaluations – impairments – provisions	• Where the Council has made judgements or estimates in the financial statements, these have been supported with robust methodologies and clear explanations of assumptions applied • Disclosure of judgements and estimates is considered appropriate although we have recommended the approach to calculating the Council Tax and NNDR arrears bad debt provision be reviewed.	Green
Other accounting policies	• We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.	Green

Assessment

- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the key statements and the reported financial position.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on Council Reserves £000
1	The Council has included the land associated with the Extra Care Housing PFI scheme at £4.9m in the accounts . This is leased on a 99 year lease to the service provider at a peppercorn rent and should have been removed from the asset register. As noted earlier, accounting for the scheme is to be reviewed in 2013/14.	4,900	(4,900)	(0)
	Overall impact	**£4,900**	**£(4,900)**	**£0**

Misclassifications & 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. This excludes amendments of a narrative or typographical nature.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	4,900	Movement in Reserves	Reduction in usable reserves and increase in unusable reserves due to the removal of Extra Care Housing PFI land
2	Misclassification	4,900	Comprehensive Income & Expenditure Statement	Increase in loss on disposal of non current assets due to the removal of PFI land
3	Misclassification	4,900	Balance Sheet	Reduction in PPE with the removal of PFI land
4	Misclassification	1,513	Balance Sheet	Accrued interest on long term loans should be included in the Short Term Borrowing rather than Long Term.
5	Misclassification	31,222	Note 1	Incorrect analysis of adjustments involving the Capital Grants Unapplied Account. Both Grants and Contributions unapplied credited to the CIES and the Application of grants to capital financing overstated.
6	Misclassification	4,900	Note 1	Increase in the amount of non current assets written off due to removal of PFI land
7	Disclosure		Note 2	2011/12 comparatives omitted
8	Misclassification	4,900	Note 3	Losses on disposal increased due to the writing out of PFI land
9	Misclassification	109,996	Note 6	Losses on revaluation incorrectly treated as impairment losses. £109,996 was transferred from accumulated depreciation and impairment to revaluation decreases within cost or valuation.

Misclassifications & disclosure changes

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
10	Misclassification	4,900	Note 6	Removal of PFI land has reduced the net book value of land and buildings in note 6 at 31 March 2013 by £4,900k.
11	Disclosure		Note 6	2011/12 comparatives for significant commitments under capital contracts omitted
12	Disclosure		Note 25	Analysis of staff by pay band incorrect. Totals are unchanged
13	Disclosure		Note 26	Salaries, fees and allowances for senior employees understated by £89k. Amounts understated relate to staff who left during the year
14	Disclosure		Note 27	Termination benefits understated by £365k. Number of exit packages understated by 25
15	Disclosure		Note 47	Explanation of liquidity, market and credit risk arising from financial instruments added
16	Disclosure		Note 48	Accounting policy for financial assets added to the Financial Instruments policy
17	Misclassification	4,951	Collection Fund	Income and expenditure reduced due to inclusion of NNDR scheme deferrals (£564k) and 2010/11 debit adjustments (£4,387k)

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have considered potential sources of significant fraud through our audit procedures. We have also discussed fraud controls and cases in year with officers and discussed fraud issues with the Audit and Governance Committee. We have not identified any material fraud during our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Council.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed. We have recommended to officers that gifts and hospitality returns for all departments and members should be centralised.
6.	**Going concern**	• Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources;
- ensure proper stewardship and governance; and
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following criteria specified by the Audit Commission :

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

The Council's new 3 Year Plan identifies its core purpose, reflects the changing role of local government, responds positively to the challenge of major funding reductions and is in line with national and local policy changes.

Following governance failings reported by internal audit, your previous auditor and the designated independent person's (DIP) review of Lyme Green there have been a number of changes in senior staff. The timing of these changes meant that three of the Council's most senior officers were interim appointments for large parts of 2012/13. Under the leadership of the interim Chief Executive the management team made good progress to address the reported issues. A number of improvements have been made since late 2012.

The Council has now appointed a permanent Chief Executive and is part way through implementing its new structures. This is an important step towards addressing the weaknesses noted in its annual governance statement for 2012/13. It is also a key part of the Council's vision to become a commissioning body.

The new Chief Operating Officer arrives in October and the recently appointed monitoring officer joins later in the year.

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Our work included reviewing key documents and interviews with officers and some members. We have produced a separate report on Financial Resilience setting out our detailed findings. Our summary findings are outlined below.

Overall our work highlighted that whilst the Council has faced, and continues to experience significant financial pressures and risks, its current arrangements for securing financial resilience are adequate. Historically, the Council has a poor track record of delivering its budget without major variances. Following a number of improvements to budget monitoring and review processes in year the Council recorded a small underspend of £300,000.

During the latter part of 2012 and into 2013 the Council improved its financial planning and control arrangements in a number of key areas. For example:

- the 2013 -2016 MTFP is now the Council's over-arching strategy linked into its business plans and other strategy documents.

Value for money

- a revised budget setting process is in place for 2014 with more explicit links to the Council's stated priorities and its sustainable community strategy;
- the introduction of a Financial Resilience Update (FRU) for Cabinet from July 2013. The update is designed to support Member decision making to help create a sustainable financial environment for the Council.

Our work has also identified areas where further improvements can be made:

- Budget monitoring and reporting processes continue to improve so that variances can be identified at an earlier stage and appropriate action is taken. But more needs to be done to ensure that tough decisions are taken when setting the budget rather than relying on services to deliver savings in year.
- The Financial Resilience Update reports introduced in July 2013 provide a suite of performance indicators, (PIs) and benchmark data to support better informed decision making across the Council. The relevant PIs need to be developed further and it is too early to see how well the information included in these reports will be used.
- While the Council recorded a small underspend for 2012/13 the outturn for the first quarter of 2013/14 indicates that services already face budget pressures totalling £7.5m, with identified remedial actions of £4.3m to mitigate these issues. Realistic forecasting is essential if the Council is to maintain control over its budget and avoid continuing to rely on remedial action late in the year.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within.

Our work included:

- reviewing how the Council is achieving efficiency through its savings programme;
- assessing how savings plans are produced through the Council's review of costs and consultation;
- reviewing the Council's processes for monitoring savings to achieve its financial targets; and
- a review of key documents and interviews with officers and members.

The Council's business planning process together with its budgeting process provide the main mechanisms for identifying savings and growth areas. But weaknesses in the application of these processes undermined its ability to show that it was providing value for money throughout 2012/13.

The Council recognised these weaknesses and introduced changes to address them during the year. Significant progress has been made to enable transparent decision making subject to appropriate risk management, challenge, scrutiny and review. The gateway model was introduced in August 2012 , in part, to respond to the criticisms arising from the Lyme Green reports. A number of improvements have been made since late 2012. These include:

- the new gateway process for agreeing major projects and monitoring capital budgets;
- improvements to the business planning process;
- agreeing the three year plan;
- review and improvement of the council’s performance management framework; and
- updated guidance and monitoring over the use of delegated decision notices.

Value for money

The Council continues to experience significant in year budget pressures suggesting that its processes are not yet securing proposals that can be delivered within its means. This is unsurprising given the improvements made in response to the auditors vfm conclusion last year did not take effect until late 2012 onwards.

All of the Council's major change programmes are now supported by detailed business cases and implementation plans. These are reviewed by the member-led Executive Monitoring Board. The Board is now starting to provide robust challenge to managers and cabinet portfolio holders.

The Council revised its capital budget in December 2012 to £75m. But by 31 March 2013 the total spend was £51.4m – an underspend of £23.3m. While the gateway process is already improving capital planning processes there is more to do to ensure the Council can accurately set and manage a realistic capital budget. Inevitably this will need members to take tough decisions about what the Council can and cannot do and live within its means.

Efficiency and savings plans are reported in sufficient detail in the quarterly performance reports to members. However these reports lack detailed information on unit costs and limited use is being made of benchmarking data. As a result the Council is less able to monitor achievement of efficiencies and reductions in unit costs, and understand and consider any impact on service quality and provision. The Financial Resilience update reports introduced in July 2013 are starting to address this weakness.

The Council recognises that its approach to procurement needs to improve. It has recently engaged external consultants to undertake a health check of its procurement activity leading onto a detailed project to transform its' processes. At this early stage the Council are aiming to secure savings of some £1.85m.

The Council's vision is to become a commissioning authority in the medium term. It has already started to create arms length bodies to deliver some services. These include a development company , waste, leisure and bereavement services. In December 2012 the Council also set up a wholly owned company - Tatton Park Enterprises - to manage the park's catering services.

As it moves towards differing models of delivering services the Council will require robust governance and risk management both itself and also its arms length service providers. The Council also needs to ensure that its policies, procedures and decision making processes remain fit for purpose during this period of significant change. This is important to maintain proper governance and stewardship of public money, help ensure that any new bodies operate successfully and, importantly, demonstrate value for money.

In March 2013 OFSTED inspected the Council's arrangements for the protection of children. The arrangements were assessed as inadequate. The inspection assessed the Council's performance across three main areas - quality of practice (inadequate), effectiveness of help provided (adequate) and leadership & governance (adequate). OFSTED's main concerns related to management decision making and case planning. No children or young people were identified where immediate action was needed to protect them from significant harm.

The Council responded positively to the report with actions to address many of the issues raised already in place when it was published. For example, the Council planned the design of ChECS (Cheshire East Consultation Service) with partners over a number of months. This new service manages all contacts for children's services. It went live last April and will tackle a number of the issues raised in the inspection report.

No other significant issues were raised by OFSTED or other agencies that impact upon the vfm conclusion.

Value for Money

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013, except for weaknesses in its:

- arrangements to procure goods and services.
- understanding of costs and performance.
- arrangements to develop business proposals and manage significant projects.

The Council made significant improvements to its arrangements to develop business proposals and manage major projects during the latter part of 2012/13. These improvements address the weaknesses reported by the Audit Commission last year but were not in place for the whole of 2012/13.

Section 4: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and the provision of non-audit services during 2012/13.

Fees excluding VAT

	Per Audit plan £	Actual fees £
Council audit	205,050	205,050
Grant certification (to be confirmed after grants audit complete)	41,600	41,600
Total audit fees	**246,650**	**246,650**

Fees for other services

Service	Fees £
No non audit services were provided to the Council	0

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 5: Communication of audit matters

Communication of audit matters to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

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

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

Appendices

Appendix A: Action plan - Accounts

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	The Council needs to review the calculation of the Council Tax and NNDR bad debt provisions. The current methodology uses 2001/02 arrears as the basis for the calculation. However, those arrears will have been reduced by amounts written off . As a result, provisions will be understated but not by a material amount.	Medium		
2	The gifts and hospitality returns are maintained via paper returns for both members and officers. Returns for members are maintained by the Council's monitoring officer and for officers, by their managers. The Council should consider centralising gifts and hospitality returns for all departments and members.	Medium		
3	The Council should review and strengthen its procedures for producing the officers' remuneration and termination payments notes (Notes 25, 26 & 27).	Medium		

Appendix A: Action plan – Information Technology

Priority

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4	The responsibility of administering security within Oracle Financials should be performed by IT system administrators who do not perform programming duties, and the practice of granting programmers greater than read-only access into production environments should be halted.	Low		
5	Password complexity should be enforced within Oracle Financials.	Low		
6	Management should periodically perform formal reviews of user accounts and group membership assignments within Active Directory for appropriateness.	Low		
7	Documented policies and procedures covering batch administration, monitoring and error handling within Oracle Financials should be established. These should be formally approved by the appropriate officers and communicated to relevant staff.	Low		

Appendix A: Action plan – Value for Money

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
8	Follow the principles set out in the revised budget setting process to ensure that budgets are realistic at the outset and therefore less reliant on remedial savings during the year.	High		
9	Ensure that the capital budget is set at a realistic level at the start of the financial year by identifying only core projects that the Council can afford , are linked to its strategic objectives and therefore avoid in year slippage.	High		

Appendix A: Action plan – Value for Money

Priority

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
10	Gain a greater understanding of unit costs to identify areas for potential savings and refer to these alongside benchmarking data in the Financial Resilience Update Report to make more informed management decisions.	High		
11	Apply the recommendations from the procurement transformation project as it develops to deliver the necessary procurement savings.	High		
12	Ensure that robust governance and risk management arrangements are embedded in the Council and in the emerging arms length companies being created by the Council.	High		

Appendix A: Action plan – Value for Money

Priority

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

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
13	Ensure that the Council's policies, procedures and decision making processes remain fit for purpose during the period of significant change to a commissioning authority.	High		
14	Ensure that Council policies are followed and decision making is – and is seen to be - transparent to the public when developing business plans and entering into significant projects.	High		

Appendix B: Audit opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE EAST COUNCIL

Opinion on the Authority financial statements

We have audited the financial statements of Cheshire East Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Cheshire East Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Operating Officer and Auditor

As explained more fully in the Statement of the Chief Operating Officer's Responsibilities, the Chief Operating 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Operating Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
- give a true and fair view of the financial position of Cheshire East Council as at 31 March 2013 and of its 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 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:
- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources
Respective responsibilities of the Authority and the auditor

The Authority 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.
We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In seeking to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have identified weaknesses in the following areas:

- arrangements to procure goods and services;
- understanding of costs and performance; and
- processes to develop business proposals and manage significant projects.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects Cheshire East Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of
Cheshire East Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Judith Tench
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
Liverpool
L3 1PS

September 2013

Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

We have not had to change our Audit Plan as previously communicated to you on 28 March 2013.

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	Yes – page 11
Costs of services – Housing & council tax benefit	Welfare expenditure	Other	Welfare benefits improperly computed	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	Yes – page 12
Payments to Housing Capital Receipts Pool	Property, Plant & Equipment	None		No	None
Precepts and Levies	Council Tax	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
Income from council tax	Council Tax	None		No	None
NNDR Distribution	NNDR	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	Yes – page 12
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	Yes – page 16
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	Yes – page 16

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