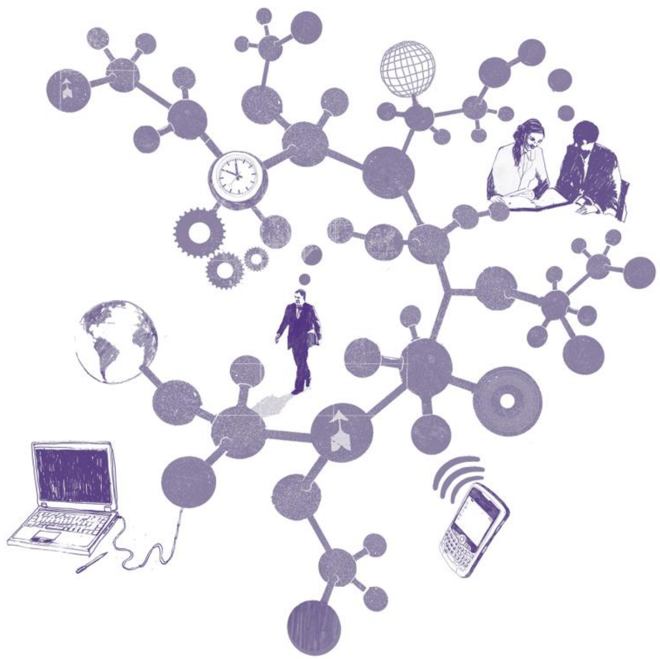
The Audit Findings for Cheshire East Council

Year ended 31 March 2014

September 2014



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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.

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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 2014. 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 our planned audit approach, which we communicated to you in our Audit Plan dated 14 March 2014.

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

- cash flow statement
- some elements of our testing on other revenue and expenditure
- aspects of our testing on property plant and equipment
- accounting for grants
- amounts reported for resource allocation decisions (note 21)
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- review of final version of the Annual Governance Statement and
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

Items of particular note are summarised overleaf. Further details are set out in section 2 of this report.

We draw members attention to the Council's explanatory foreword which we consider to be an example of good practice. This provides a clear and balanced statement of the Council's activities for the year, includes appropriate information and makes effective use of charts. The Council has achieved a strong financial performance in the year and increased its earmarked reserves by£13.2m as reported at note 2 (including new earmarked reserves of £12.4m approved in July 2014 in addition to the £0.5m elections reserve set up in October 2013). This is now more clearly highlighted in the explanatory foreword.

Key issues arising from the audit of the financial statements include :

- We have identified one adjustment affecting the overall position reported in the Comprehensive Income and Expenditure Statement (CIES), however this does not result in any change in the balance retained in the general fund. This is for income of £8.8m relating to capital grant for schools, which is required to be accounted for as income in the CIES rather than held on the balance sheet as a capital grant received in advance.
- We have identified a number of adjustments that affect current assets and current liabilities on the balance sheet and amendment to notes to the accounts to improve the consistency and content of disclosures.
- In March 2014, we highlighted the audit issues that might arise in respect of the valuation of property, plant and equipment. Our findings are set out page 14. The Council has engaged support from its external valuer to support its assertion that the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. This work is to be concluded but we will update the Audit and Governance Committee.
- We highlight our different interpretation of the accounting treatment for Dedicated Schools Grant at page 17.
- We also report a difference in our estimate for the liability for the PFI scheme compared to that reflected in the financial statements. This is described at page 15.

Value for Money conclusion

Based on our review of the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources, we propose to give an unqualified VfM conclusion. This is an improvement from the previous year's qualified VfM conclusion and the Council is to be commended for the improvements made to its arrangements during the year.

Further detail of our work on the VfM conclusion is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

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. We have not identified any significant control weaknesses but highlight the findings of our review of IT controls.

Further details are provided within section 2 of this report.

The way forward

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

We have made a number of recommendations, which are set out in the action plans in Appendices A and B. Recommendations have been discussed and agreed with the Head of Corporate Resources and Stewardship.

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 2014

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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 13 February 2014. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Audit opinion

It is pleasing to report that we anticipate that we will provide the Council with an unqualified opinion, in line with the reporting timescale required under the Accounts and Audit (England) Regulations 2011. Our proposed audit opinion is set out in Appendix C.

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	• review of accounting estimates, judgements and decisions made by management • testing of journal entries • 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 identified no 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	Creditors understated or not recorded in the correct period	We documented the processes and controls in place around the accounting for operating expenses and carried out walkthrough tests to confirm the operation of controls. We have completed testing including: • the completeness of the subsidiary system interfaces and control account reconciliations • review of monthly trend analysis of payments • cut off testing of purchase orders and goods received notes (both before and after year end). Testing also covered a sample of operating expenses covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.	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	Employee remuneration accrual understated	We documented the processes and controls in place around the accounting for employee remuneration and carry out walkthrough tests to confirm the operation of controls. We carried out testing including: • the completeness of the payroll reconciliation to ensure that information from the payroll system can be agreed to the ledger and financial statements • sample of payments in made in April & May to ensure payroll expenditure is recorded in the correct year (in conjunction with testing on operating expenses) • review of monthly trend analysis of total payroll. Testing also covered a sample of employee remuneration payments covering the period 1/4/13 to 31/3/14 to ensure they have been accurately accounted for and in the correct period.	Our audit work has not identified any significant issues in relation to the risk identified. Our audit of note 25 senior management remuneration has identified £65k that is omitted from the disclosure (this is included in employee expenses withn the CIES). This is a small amount but highlighted due to the sensitivity of these type of disclosure. In future we also consider that there is scope for the Council to reduce the length of this disclosure.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Welfare expenditure	Welfare benefit expenditure improperly computed	We documented the processes and controls in place around the accounting for welfare benefits and carry out walkthrough tests to confirm the operation of controls. Our testing in accordance with the methodology required to certify the housing benefit subsidy claim is underway.	Our audit work has identified no significant matters.
Property, plant & equipment	PPE activity not valid	We documented the processes and controls in place around the accounting for PPE and carry out walkthrough tests to confirm the operation of controls. We carried out testing on a sample of PPE transactions covering the period 1/4/13 to 31/3/14.	Our work on property, plant and equipment is not fully complete. We will update the Audit and Governance Committee of any subsequent findings in relation to the risk identified. Note 6 details the movements on property plan and equipment asset. The note includes : • Cost or valuation - 'other movements in cost or valuation' -£13.3m • Accumulated depreciation and impairment - 'other movements in cost or valuation' £2.94m We consider that these rows include transactions that should properly be reported elsewhere in the note, for example as de-recognition or as impairment. This disclosure is therefore not fully in accordance with the requirements of the Code. This is a classification matter. However we also consider that this does not represent a material risk of misstatement to the reader of the accounts as the overall impact on the net book value of assets would remain the same. This is subject to the findings of our specific audit testing to confirm the validity of the adjusting entry relating to a sample of items. We will update the Audit and Governance Committee if the outcome of that testing impacts upon that conclusion. We are also satisfied that appropriate charges are made through the CIES and then adjusted via the MIRS. Management do not propose to reclassify the disclosures within note 6 in 2013/14. Instead management have agreed to carry out a full review in 2014/15 of the underlying asset register and the associated capital expenditure to ensure that: • Where assets are enhanced and an adjustment is identified to remove the value of the original asset being replaced that this is reported as de-recognition in the cost or valuation section of the note and also as de-recognition in the accumulated depreciation and impairment section. • Any further adjustment that meets the definition of impairment, is reported in the accumulated depreciation and impairment section of the note.

Audit findings against other risks

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	Revaluation measurement not correct	We documented the processes and controls in place around the accounting for revaluations of PPE and carry out walkthrough tests to confirm the operation of controls. We reviewed the qualifications, term of reference and the assumptions and methods used by the valuer, in his work, carried out as an expert for the Council. We reviewed valuation reports to support the accounting entries.	Our audit work confirmed the operation of controls and we are satisfied that we may place reliance upon the work of the valuer as the Council's expert. In our emerging issues briefing (27 March 2014) we highlighted specific audit issues that might arise in respect of property, plant and equipment valuations: • The 2013/14 Code has clarified the requirements for valuing property, plant and equipment and now states that revaluations must be 'sufficiently regular to ensure that the carrying amount does not differ materially from that which would be determined using the fair value at the end of the reporting period.' The Council has engaged support from its external valuer to support its assessment. This involves analysis which considers assets that have not been subject to revaluation in the year and how factors such as fluctuations in market prices and building costs may impact on those values. This work is in progress and we will update the Audit and Governance Committee on this matter. • The Code also sets out the requirements for valuing classes of assets: • items within a class of property, plant and equipment are to be revalued simultaneously to avoid selective revaluation of assets and the reporting of amounts in the financial statements that are a mixture of costs and values as at different dates • a class of assets may be revalued on a rolling basis provided revaluation of the class of assets is completed within a short period and provided the revaluations are kept up to date. The Council has made appropriate disclosure of its approach using a rolling programme of valuation and has revalued large groups of assets in the year including its schools and car parks. The Council has divided its assets into smaller groups for the purposes of revaluation but these groups of asset are not disclosed separately in the property, plant and equipment note and so we consider that this is not strictly in accordance with the Code requirements. These considerations are secondary to the requirement that the carrying value does not differ materially from the fair value. Going forward we recommend that the Council ensure that it has appropriate arrangements in place as part of its closedown arrangements, to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period.

Additional audit findings

We carry out audit work that covers all material balances and disclosures within the financial statements. In addition to the specific areas of our audit work covered at pages 10-14, there are other audit findings that we wish to report to you. Recommendations are included in the action plan at Appendix A.

Other areas of the accounts	Issues arising
Extra Care Housing PFI scheme	The Council established a joint PFI scheme with Cheshire West and Chester Council in 2009/10. It provides facilities and support for extra care housing. The PFI sites are located in Handforth, Middlewich and Crewe for Cheshire East Council. The accounting models for PFI schemes are highly complex accounting estimates and contains various elements including cost of services, which needs to be apportioned by use in the financial model. The application of the model in apportioning these costs is reported in the Council's accounts. The costs of the operator of the scheme are covered by income received from tenants (third party income) and the unitary charge levied by the PFI supplier to the Council. Where the scheme includes significant third party income the accounting for this is an accounting judgement with current expected practice for this to be recognised through a deferred income balance offsetting the fair value of the asset on recognition. As part of our audit of the Council's accounts last year (2012/13), we recommended that the Council review the treatment of third party income generated by the PFI scheme and how this was accounted for following comparison with the Grant Thornton model. The Council completed this review, and after initial discussion with auditors, accounted for the outcome as a prior period adjustment. This accounted for third party income by setting up a separate asset value and deferred liability balance of £16.4m. Following detailed audit work (in which we involved our technical specialists) as part of the accounts audit, we agreed with management that the prior period adjustment should be reversed as this did not result in appropriate accounting entries for the scheme. The opening balances are therefore returned to those reported in the prior year's audited accounts. The Council has now enhanced the PFI disclosures to disclose how it has arrived at its revised accounting judgement for the treatment of third party income and the impact if it had not applied that judgement. We have assessed the impact of the Council's accounting judgement in this area and carried out modelling to provide an estimation range. There are some differences between the Council 's overall PFI liability and future disclosures and those shown by the Grant Thornton model. These differences are due to the way in which the initial construction costs of the scheme were derived and apportioned over the properties involved in the scheme. We recommend that the Council reviews the initial construction costs within the accounting model with a view to make changes in 2014/15.
Impact on Primary Statements	We have compared the Council's accounting estimate disclosed in the accounts at £21.028m to our own estimate. The reported liability falls £5.358m below our range of estimates. This also impacts upon the disclosures at note 37 as set out overleaf. Given the nature of this difference and the fact that it is not material, no amendment has been made. In summary: **Statement of financial position** • PFI liability – the Council's liabilities disclosed on the Statement of Financial Position fall £5.358m below our range of estimates. **Statement of Comprehensive income** • Service charges to expenditure – the Council's estimate falls within our range of estimates. • Interest – the Council's estimate is £0.2m above our range of estimates. • Contingent rent – the Council's estimate falls within our range of estimates.

Additional audit findings (continued)

Other areas of the accounts	Issues arising
Extra Care Housing PFI scheme • **Disclosures**	**Disclosures** The Code requires a number of disclosures in relation to the description and future commitments of the PFI scheme . These have been improved to include: • A description of the scheme and the position at the end of the arrangement • Disclosure of the in-year transactions for the scheme • Disclosing future lifecycle costs of £11m within the analysis therefore providing an estimate of the total future payments committed for the scheme. • Fair value of the PFI liability (if the Council could obtain a lower rate of interest at 31 March 2014 than in the accounting model) There are some differences between the Council 's disclosures of the future transactions reported at note 37 and those shown by the GT auditors' model. The more significant of these are detailed in the table below. These differences are due the way in which the initial construction costs of the scheme were derived and apportioned over the properties involved in the scheme.

	Principal Payments £000	Difference compared to GT Audit estimate £0	Capital Costs £000	Interest £000	Difference compared to GT Audit estimate £0	Service Charge £000	Total £000
Amounts due in 2014/15	289	222	296	1,906	-209	175	**2,666**
Amounts due 2015/16 – 2018/19	1,435	953	1,203	7,458	-899	767	**10,863**
Amounts due 2019/20 – 2023/24	3,047	1,251	1,457	8,622	-1,186	940	**14,066**
Amounts due 2024/25 – 2028/29	3,474	1,255	2,413	7,094	-1,187	1,692	**14,673**
Amounts due 2029/30 – 2033/34	4,808	1,083	3,340	4,838	-1,011	2,373	**15,359**
Amounts due 2034/35 – 2038/39	7,975	594	2,340	3,238	-533	1,759	**15,312**
Total	**21,028**	**5,358**	**11,049**	**33,156**	**-5,025**	**7,706**	**72,939**

Principal repayments	The audit estimate of the principal repayment due is greater that that reported at note 37.
Interest	The audit estimate of the interest element due in the future periods is less than that that reported at note 37.

Additional audit findings (continued)

Other areas of the accounts	Issues arising
Dedicated Schools Grant	The Council accounts for the balance of Dedicated Schools Grant to be carried forward to the 2014/15 schools budget of £6.028 million as creditor (receipt in advance) on the balance sheet as it considers that this represents grant income that must be transferred to the schools in the following year. It is our view that this could be more appropriately accounted for as an earmarked reserve as there is no condition that requires repayment of the grant received to the funding body. Given the technical accounting interpretations are unclear in this area, this represents an uncertainty that we wish to highlight to the Audit and Governance Committee. In particular: • We are satisfied that this does not represent a risk of material misstatement and that this should not impact upon a users interpretation of the accounts, as the amount involved in not material. • The specific disclosures required by the Code, relating to dedicated schools grant are included in the financial statement and provide a clear statement of the carry forward position in respect of this. • Management have agreed to consider the accounting treatment in 2014/15 and we will work with officers to resolve this issue.
Capital grant receipts in advance	At note 29 the Council reports capital grants receipts in advance. The draft accounts reported a balance of £27.685m. Our audit testing identified: • Income of £8.887m relating to capital grant for schools, where the Council could not provide sufficient evidence that these grants contained 'conditions' that would require their repayment. Management have agreed that these should properly be accounted for as income in CIES (taxation and non specific grant income) and then transferred to the capital grants unapplied account via the MIRS. • A balance of £12.164m in respect of the Growing Places Fund. The balance does not represent grant income available to the Council as it is monies held by the Council in administering the Fund on behalf of the Cheshire & Warrington Local Enterprise Partnership. As an agency arrangement the Council is only required to account for the balance of any cash held on behalf of the fund with an appropriate debtor or creditor balance. The accounts have been amended to transfer the balance from capital grant receipts in advance to long term creditors. We recommend that the Council reviews all its remaining balances held as receipts in advance to reassess the requirement that these may only be held as a liability where there are conditions in place that are not yet satisfied. Otherwise the income should be recognised in the year that it is received.
Capital receipts reserve	The Council maintains a capital reserve reported at note 16b of the financial statements. This predominantly includes transactions relating to capital receipts and their use to finance capital expenditure but it is also used to record appropriations from the general fund for the financing of capital expenditure. We are satisfied that this approach does not distort useable reserves overall, however we recommend that the Council reviews its approach in 2014/15 and operates a dedicated capital receipts reserve in accordance with the Code.

Additional audit findings (continued)

Other areas of the accounts	Issues arising
Capital grant unapplied account	The Council report the movements on the capital grants unapplied accounts at note 16c. This Council uses this account to record all capital grants and contributions received (with conditions met in year) and accounted for as income and all the grants and contributions applied to finance capital expenditure. This differs from the Code requirements for capital grants received and applied to be accounted for as an adjustment in the MIRS directly to the capital adjustment account. We are satisfied that the entries in the MIRS reflect the Council's practice and ensure that the overall impact on the capital grant unapplied account and the capital adjustment account is correct. However this is a departure from the capital accounting entries set out in the Code and the Council may wish to consider its approach in 2014/15.
Collection fund	The Collection Fund statement has been amended to provide additional information on the main statement to meet the requirements of the Code which sets out the items of accounts that must be separately reported . Going forward the format and content of the statement is now in accordance with the Code requirements and provides an appropriate basis for future disclosures (subject to changes to the Code).
Related party transactions	The Council seeks confirmation from senior management and members of their interests in other bodies and uses this information to ensure that its assessment and disclosure of related party transactions is complete. Completed returns were not obtained for all senior management and members. We have requested specific representation that alternative sources of information were obtained and that the disclosures are complete.

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
Revenue recognition	• Government grants and contributions are recognised in the Comprehensive Income and Expenditure Account when there is reasonable assurance that the income will be received and conditions will be satisfied. • Sales, fees, charges and rents are accounted for as income when the council provides the relevant goods or services. • Interest payable on borrowing and receivable on investment is accounted for on the basis of the effective interest rate rather than the cash flows. • The CIES includes the Council's share of the accrued income for council tax and non domestic rates. • When income is recognised but cash is not received then a debtor is recorded in the balance sheet.	The Council's accounting policy for revenue recognition is appropriate, consistent with the Local Government Code of Accounting Practice and disclosures are sufficient.
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 highlighted that there are some policies reported which can be excluded on the grounds of materiality. This will be considered for 2014/15 . Accounting policies have been improved to: • Include more information relating to employee benefits • Update the policy for property plant and equipment to reflect the Code requirements for revaluation and to provide details of the range of asset lives.

Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments
Judgements and estimates	The Council has enhanced its disclosures of judgements and estimates. Critical judgments are set out at note 44 of the financial statements and include: • consideration for the application of group accounts • the assessment of the PFI scheme and that is appropriate that assets and liabilities are recognised on the balance sheet • the treatment of property relating to schools transferring to academy status • the valuation of the investment in Manchester Science Park. Note 43 provides information about assumptions made about the future, and other major sources of estimation uncertainty. These include: • property valuation • pension liability • arrears and impairment of doubtful debts for sundry debtors • business rate appeals.	Our findings from our review of judgements and estimates are: • We have reviewed the Council's disclosures for these items and are satisfied that they are appropriate and in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting. • The Council has concluded that group accounts are not required in 2013/14 and we consider this to be appropriate. Looking forward, the Council is more likely to be subject to the requirement to prepare group accounts, following the establishment of its alternative service delivery vehicles and this will impact upon the Council's closedown arrangements and the audit procedures required. • Pension liabilities - A firm of consulting actuaries (Hymans Robertson LLP) is engaged to provide the Council with expert advice about the assumptions to be applied when valuing pension liabilities. These assumptions cover areas such as mortality rates, inflation and future increases in salaries and pensions. We have reviewed the assumptions used by the actuary and are satisfied that they are reasonable and do not result in material misstatement of the pension liabilities. There are some aspects that we need to bring to your attention: • PFI – we have compared the Council's accounting entries with our own estimates and have reported a difference of £5.358m between the two. We have reported our detailed findings at pages 15-16. • Valuation of property plant and equipment - we have reported our specific findings at page 14. • 2013/14 is the first year of the new arrangements for the collection of non domestic rates. A key part of the management of the NDR fund is the Council's estimation of the provision needed for appeals against rateable values on properties. The Council has made an appropriate provision for the liability associated with appeals that have been lodged. However, the Council (along with many other councils), has concluded that it can not accurately predict the liability associated with future appeals and has disclosed this as a contingent liability. The Council considers that this risk is factored into its financial plan.

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 primary statements and the reported financial position.

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Movement in Reserve Statement £000
Income relating to capital grant for schools, where no 'conditions' for repayment of the grant, removed from capital grants receipts in advance, accounted for as income in the CIES (taxation and non specific grant income) and then transferred to the capital grants unapplied account via the MIRS.			
• Cr Taxation and non specific grant income	(8,887)		
• Dr Capital grants receipts in advance		8,887	
MIRS (adjustment between accounting basis and funding basis under regulation):			
• Dr General Fund			8,887
• Cr Capital Grant unapplied account		(8,887)	
Overall impact	**(8,887)**	**0**	**8,887**

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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification - CIES	87,790 (87,790)	Taxation and non specific grant income (CIES,note 4 and note 29) Other housing services (CIES)	The housing benefit subsidy grant income and housing benefit administration grant was included in 'taxation and non specific grant income' on the CIES and in note 4 and note 29 as the Council considered these to be a non ring fenced grant. This is re-classified as income relating to 'housing services' - per the specific requirements of SERCOP, confirmed with CIPFA. The comparatives for 2012/13 have also been restated. This adjustment also affects the cash flow statement and the MIRS.
2	Misclassification - CIES	(1,294) 1,294	Public health income Public health expenditure	Increase in income and reduction in expenditure.
3	Misclassification – Balance sheet	12,164 (12,146)	Capital grants receipts in advance Long term creditor	The balance does not represent grant income available to the Council as it is monies held by the Council in administering the Growing Places Fund on behalf of the Cheshire & Warrington Local Enterprise Partnership. It is now correctly shown as a long term creditor.
4	Disclosure -changes to IAS19 (relating to pension transactions)	Various	CIES, Note 32 and 33 Pension Scheme, Note 36 Changes to Accounting policy and Prior Period Adjustments, Note 48 Accounting Policies	Changes to description used in the CIES, disclosure notes and accounting policies to reflect new terminology applied by changes to IAS19 relating to pension disclosures. Amendment to correct contribution amounts, include additional disclosures required by the Code, correct the summary of the amounts reported in the CIES to ensure consistency with other areas of the accounts. Additional disclosures to report the impact of the changes to IAS 19 on the comparative figures for 2012/13.
5	Disclosure	Various	Note 1 Adjustments between accounting basis and funding basis under regulations	Amendments to entries for non current assets written off on disposal and transfer of sale proceeds to accord with the Code requirements. Amendment to depreciation and provision for financing reflects adjustment to transactions relating to PFI assets (associated amendments to note 6 and note 34)
6	Disclosure	Various	Note 6 Property Plant and Equipment	Additional explanation to explain significant asset disposals, amendment to revaluation table and other narrative.
7	Misclassification	Various	Note 12 Debtors	Amendment to move £0.271 from long term debtors to current debtors (also reflected on balance sheet). Restatement of prior year comparators for transactions associated with NDR to ensure consistent disclosure with the classification applied in 2013/14

Misclassifications & disclosure changes (continued)

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
8	Disclosure	8,887	Note 16c capital grant unapplied	Amended to reflect additional £8.887m of grants with conditions met in yet, transferred via the CIES and MIRS, from the capital grants receipt in advance account (as reported at page 17)
9	Disclosure	Various	Note 36 Changes to accounting policy and prior period adjustments	The accounting transactions and disclosures relating to the restatement of PFI assets and liabilities are removed. This note now includes disclosures relating to the change in IAS 19 which affects the pension transactions for 2012/13 reported in the accounts and affecting the CIES, the MIRS and the Cash Flow Statement. As the Council has also amended the classification of housing benefit subsidy and administration grants, the impact on 2012/13 is also reported in order to provide a clear link with the 2012/13 comparatives reported in the CIES.
10	Disclosure	Various	Note 37 Private Finance Initiative	Disclosures improved by including description of the scheme, disclosure of the in year transactions, inclusion of lifecycle costs in future payments.
11	Disclosure	Various	Note 10 and Note 47 Financial instruments	Amendments to reflect changes elsewhere in the statements, additional disclosure of the credit rating of investments and additional disclosure of the analysis of the age of financial assets that are past due as at the reporting date but not impaired.
12	Disclosure	Various	Collection Fund and notes	Amended to provide additional information on the main statement to meet the requirements of the Code which sets out the items of accounts that must be separately reported including: • The distribution of the prior year surplus or deficit on the fund allocated to the precepting/associated bodies • Further detail of costs charged to the collection fund • The demand upon the collection fund allocated to the precepting/associated bodies • The allocation of the overall balance to the precepting/associated bodies The comparatives for 2012/13 are corrected to agree to the audited financial statements for 2012/13 and expanded to provide the same detail. The notes to the collection fund are updated to describe the new arrangements for non domestic rates under the Business Rates retention Scheme. Revised banding information is reported for Council Tax.
13	Disclosure	Various	Cash flow statement	Amendment to reflect changes elsewhere in the financial statements.

Unadjusted misstatements and uncertainties

The table below provides details of matter identified where no adjustments are made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
As set out at page 15 the Council's PFI liabilities disclosed on the Statement of Financial Position fall below our range of estimates. The opposite entry would ultimately affect the capital adjustment account.		5,358	The variance identified is not material. Management propose to review the underlying model during 2014/15 and consider the specific inputs and determine if these should be amended.
Uncertainty relating to the accounting treatment of Dedicated Schools Grant currently accounted for as receipt in advance, rather than being accounted for as income and transferred to an earmarked reserve.	(6,028)	6,028	This should not impact upon a users interpretation of the accounts, as the amount involved is not material.
Overall impact	**(6,028)**	**11,386**	

Internal controls

The purpose of an audit is to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

Issue and risk	Recommendations
Our review of controls in the IT environment identified the following matters where aspects of the controls in place could be enhanced. • Minimum password length is only 8 characters and does not require complex password • Documented policies and procedures for batch administration have not been formally established (eg monitoring, configuration, error resolution) within Northgate and so there is a risk that these are not formalised or communicated to those responsible for observing or implementing them. The effectiveness of batch management processes may be diminished due to environmental and/or operational changes. • At least one individual with Oracle Financials application-level security administration rights also performs development duties, the combination of which creates an segregation of duties conflict. Also developers are sometimes provided access to the APPS Oracle database-level account which grants them greater than read-only access into the production Oracle database. This presents a risk of override or circumvention of internal controls and processes, risk to security administration processes or access restrictions. • User accounts and associated permissions are not formally reviewed for appropriateness. This presents a risk that dormant accounts could be used to hide user activity, users could gain unauthorised and inappropriate access rights that they are not entitled to and access to domain resources may not be restricted on the basis of legitimate business need.	• Password minimum length should be in line with best practice and set to be at least 9 characters. • Documented policies and procedures addressing the topics of batch administration, monitoring and error handling within Northgate should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. • 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. Alternatively, management should implement a formal/ documented monitoring process designed to review the actions performed within the Oracle application and database production environments by developers. • Management should periodically perform formal reviews the user accounts and group membership assignments within Active Directory for appropriateness.
Since the Oracle upgrade in 2011, there has been a posting problem which primarily relates to scheduled payments. Once the payments schedule has been set up, the accounting for all the payments on it is held until the final payment date on the schedule. This results in the bank and creditor balances being overstated. Finance staff correct for this through journal which is then reversed in the following period. The balance is £1.093m at the balance sheet date representing 908 transactions.	Continue to pursue an IT solution to this matter so that payments are properly accounted for in the general ledger without the need for manual intervention. In the meantime ensure that appropriate evidence is retained to support all adjusting journals.

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 previously discussed the risk of fraud with the Audit and Governance Committee who confirmed there to be no fraud with a material impact on the financial statements. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A letter of representation has been requested from the Council. • In particular, representations will be requested from management for not amending the financial statements for the items identified on page 24.
4.	**Disclosures**	• Our review found no material omissions in the financial statements. Disclosures have been amended as set out at pages 22- 23. There are some immaterial disclosure that the Council may wish to exclude from the financial statements in the future. There are a small number of disclosures where no comparatives are provided including the related parties note, pooled budget disclosures, shared service costs and dedicated schools grant. Where possible, this additional information is being included.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed. In particular, representations will be requested from management to confirm that where annual returns were not obtained for accounts purposes, that alternative sources of information were obtained and that the disclosures are complete.
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

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 2014.

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 two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

These criteria are:

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.

Our approach

Our approach is designed to assess:

- arrangements in place related to the specified criteria
- performance during 2013/14 and what that says about those arrangements
- any significant risks that we have identified, following up matters of significance from previous years' audits.

Securing financial resilience

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

- strategic financial planning
- financial governance
- financial control.

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 and whether it has achieved cost reductions and improved productivity and efficiencies.

We have carried out work in the following areas to address the risks identified:

- Review the Council's financial resilience, as reflected in the medium term financial strategy and the savings factored into the annual budgets.
- Review the Council's arrangements for identifying and reflecting the financial implications of the development of alternative delivery models in its medium term financial plans.
- Review the Council's progress in planning for its role under the Better Care Fund (previously Integration Transformation Fund).
- Review the evidence of improvements in the arrangements to protect children following the Ofsted inspection report published in April 2013.
- Review the Council's progress in implementing actions to address the matters raised in the 2012/13 VfM conclusion specifically:
    - arrangements to procure goods and services.
    - understanding of costs and performance.
    - arrangements to develop business proposals and manage significant projects.

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 2014.

Key findings

The Council has demonstrated improvements in its arrangements, particularly where weaknesses were highlighted in previous audits and we are pleased to confirm that we intend to issue an unqualified VfM conclusion.

Overall our work highlights that the Council managed its finances effectively for 2013/14 within its revenue budget of £260m, achieved a surplus of £0.9m (after creating new earmarked reserves of £12.4m approved in July 2014 and £0.5m elections reserve set up in October 2013)increasing its general reserves to £19.8m. It has consolidated improvements to its financial planning and controls, updated its medium term financial strategy, identified measures to address the £8.3m net budget deficit and approved a balanced budget for 2014/15. There remains a financial gap of £22m over the following two years, which whilst not as large as that faced by Councils with greater reliance on government grant, represents a significant challenge.

During 2013/14 the Council appointed its senior leadership team after a period of key posts being filled on an interim basis. The management review accompanies changes to the Council's approach to deliver services and to achieve the outcomes set out in the Three Year Council Plan.

The Council's three year plan highlighted the five 'Outcomes', the performance management framework identifies how the Council is delivering each outcome and the medium term financial strategy shows how that performance is funded. Specific project management arrangements for the development and monitoring of programmes of financial significance or particular risk are also now fully in place.

Looking ahead, the Council is developing Commissioning Plans to draw together the intentions for service areas, providing further scope to set out clearly how the governance, risks and financial plans are addressed at a operational level.

We set out overleaf a summary of our findings against six risk areas, where we have assessed the Council's performance against the Audit Commission's criteria. We summarise our assessment using a red, amber or green (RAG) rating. Our overall assessment for each areas is green, reflecting our balanced assessment that the arrangements are adequate. There are aspects however where further improvements may be made and we include specific recommendations in the action plan at Appendix B focusing on the Council's developments in key areas.

- As part of its move to become a commissioning council, the Council has challenged the way activities are delivered and explored new ways of delivering activities. We have highlighted the importance of reviewing the governance arrangements to ensure these are operating as intended and that any risks to service delivery or internal controls are identified and addressed.
- Another aspect to changing service delivery is the integration promoted through the Better Care Fund. Throughout 2014/15, the partners need to work together to develop the plans more fully and to apply these to integrate care and support services across the borough and deliver on the required national conditions set by the Department of Health.
- The Council has continued to review and develop its arrangements for procurement, recognising the significant contracts that are due for renewal over the next three years and the scope for efficiency savings through effective contract management, procurement and commissioning activities.
- The Council has worked to implement the detailed recommendations arising from the OFSTED inspect of the Council's arrangements for the protection of children (March 2013). The multi agency Improvement Board has monitored this progress and confirmed there has been significant improvements made since the original inspection.

We have discussed our detailed findings with the Chief Operating Officer. Management's response to our recommendations is included in the action plan at appendix B.

Theme	Summary findings	Overall conclusion
Key indicators of performance	Key indicators covering liquidity, borrowing, performance against budget and reserves indicate the secure financial position of the Council at 31 March 2014: • The Council's working capital ratio for 2012/13 was 0.93 and increased to 1.20 at 31 March 2014 (draft accounts). • The Council collected 98.1% of council tax due and 98.3% of business rates (reported by the Council to be upper quartile performance). • The Council has a strong local tax base and lower dependence on government grant. The budget report for 2014/15 highlights that the funding for Council Services from Council Tax and Business Rates increased to over 75% of the total. This reduces the Council's exposure to the risk of reductions in Government grant funding. However the resources available for service expenditure may still fluctuate, particularly local funding from business rates. • Council's long term borrowing ratio (as a percentage of tax revenue) was the lowest of the comparator group in 2012-13 at 0.61, (also in 2011/12) and reduced slightly to 0.59 on the basis of 2013/14 figures (draft accounts). The Council's capital financing requirement exceeds the amounts actually borrowed, the shortfall is funded from cash balances. Borrowing of £6m has been repaid in 2013/14 and no new external loans were taken out. In line with the treasury management strategy, the Council has used its own cash balances to finance capital expenditure rather than new borrowing (since April 2009) as a deliberate cost measure . The Council's MTFS recognises that this level of internal borrowing will not be sustainable in the longer term and external borrowing will be required in future years. • The outturn position for 2013/14 shows an underspend of £0.897m (0.35%) against the revenue budget of £260m, with net transfers to earmarked reserves of £13m (to bring total to £26.3m now set aside for a range of specific purposes) and net increase in general reserves of £0.9m to £19.8m. The gross revenue to expenditure ratio illustrates that Cheshire East Council has low levels of reserves compared to the average but the ratio has now increased to 7% closer to the prior year average position of 9%. • The balances attributed to schools at 31 March 2014 is £8.8m (£12.626m in 2012/13) with 15 schools transferred to academy status in 2013/14. The key indicator shows that 5% of the dedicated schools grant allocation remained unspent at the end of the year compared to 7% in 2012/13 (2012/13 average of 6%) - an indication that schools are retaining appropriate levels of reserves. • During 2013/14, the Council reviewed the capital programme to ensure that only schemes meeting the Council's priorities remained in the programme. The Council reduced its capital budget from £121m to £78.6m and incurred capital expenditure of £65.6m against this revised capital budget. The underspend of £13m has been re-profiled as this is expected to be incurred in future years as part of the four year capital programme totalling £229m. • Total employee expenditure (per the segmental reporting analysis included in the financial statements) has continued to reduce from £306.3m in 2011/12, £287.1 million in 2012/13 to £261.6 million in 2013/14. This reduction of 8% on costs reflects a 5% reduction in the number of people employed by the Council (headcount per Final Outturn review of Performance 2013/14). The Council has a number of key workforce development projects underway to support the Council's transformation of the way that services are delivered. The Senior Management Review is now complete and expects to achieve savings of £5m by 2014/2015, one year ahead of schedule.	Key indicators indicate the secure financial position of the Council

Theme	Summary findings	Overall conclusion
Strategic financial planning	The Council has updated its Medium Term Financial Strategy (MTFS) for the period 2014 to 2017. It identifies budget shortfalls, for which the Council is yet to identify savings of £6.6m in 2015-16 and £15.6m in 2016/17. With a strong tax base, the Council is less reliant on government grant than other local authorities, nevertheless the need for additional savings and efficiency measures represents a challenge that is being tackled as the Councils progresses towards its balanced budget position for the next financial year. The annual budget planning is now integrated with the MTFS. The Council has arrangements in place to ensure that the MTFS and the annual budget is updated, and remains responsive to the key planning assumptions which impact on the Council's operations, the level of savings to be identified and the changes in its operating models. There is an established process to review, report and seek approval for changes to revenue budgets and the capital programme. The Council has developed new models to deliver services and the pace of these change has increased with four new alternative delivery models launched early in 2014/15. This shift to a commissioning role, presents the Council with different risks to its financial planning and governance arrangements.	Overall we are satisfied that the Council has adequate arrangements for strategic financial planning
Financial governance	The Council appointed to the key management posts in 2013/14.This provides the Council with a stable and accountable management team to promote and direct the improvements to its governance arrangements. Members receive comprehensive financial management information through budget setting and performance reports, linking back to the Council's Outcomes set out in its Three Year Plan. This level of reporting enables Members to have an oversight of performance against the budget. During 2013/14 there was still some variation on the revenue outturn position being forecast during the year, which in part reflects management's 'prudence', but a more reliable estimate was established at an earlier stage of the year. Subsequent information, funding changes and monitoring of the change management programme, will mean that some budget changes will continue to be required. As the Council consolidates its financial monitoring arrangements, it should be able to demonstrate further improvements to financial forecasts and accurate financial planning to support achievement of the Council's outcomes. Other financial reports include updates on the Council's Treasury Management activities. In October 2013 this reporting suite was supplemented with a 'Value for Money Overview' providing information on key financial health indicators. This included some information on cost of services. There is scope to enhance the performance management framework to include unit cost information, as trends in spending or comparisons with other councils, as a supporting indicator to link between expenditure decisions and service outcomes. The Audit and Governance Committee provide adequate challenge but there is scope to improve the focus of its discussions to provide more effective oversight, support and challenge for the Council's financial management and system of internal control. The Council has made recent improvements to the capital budget approvals process for 2014/15 to distinguish between the different elements of the programme from commitments, through to schemes which are aspirational. In future it should be more evident how the programme is progressing, enhancing reporting along with improvements to the capital planning process, gateway reviews and improvements to manage the delivery of capital projects.	Overall we are satisfied that the Council has adequate arrangements for financial governance

Theme	Summary findings	Overall Conclusion
Financial control	The Council applied new arrangements to prepare and approve the MTFS for 2014 – 2017 and the annual budget for 2014/15. In addition, the enhanced arrangements for the project management and the performance management framework are now in place to provide scrutiny and challenge to major projects and programmes for change. The annual savings target is incorporated into this medium term financial planning and subsequent financial and performance monitoring, closely linked to the Council's Outcomes, and is not separately reported as it is integral to overall performance.The Council secured an overall underspend of £0.9m in 2013/14, identified sufficient measures to remove the financial gap of £8.3m for 2014/15 and has made progress in addressing the financial gap of £6.6m for 2015/16. The arrangements for budget monitoring and reporting are established. Financial and performance reporting is underpinned by a detailed understanding by portfolio holders of their service areas, including progress against efficiency plans. Briefings to all members have been provided at key stages throughout the year. Internal Audit have concluded that the Council's framework of risk management, control and governance is adequate for 2013/14. With appropriate arrangements in place to deliver a risk based internal audit programme, IA are working with senior management to promote the timely implementation of recommendations. The Council continues to strengthen its risk management framework, with a risk management policy, risk assessment, monitoring and reporting arrangements in place. As reflected in the Risk Management Annual Report, the risk management procedures are being updated to respond to the changes to service delivery models in order to ensure that the risks associated with the new organisations have been identified and prioritised and are being appropriately managed. This should ensure that the new vehicles have effective risk management procedures in place. It is important that the governance arrangements are reviewed to make sure that they operate as intended and enable the Council to identify and address any risks to service delivery or internal controls.	`

Theme	Summary findings	Overall Conclusion
Improving efficiency & productivity	The Council has established a project management structure and formal gateway decision and reporting arrangements for major schemes or those with specific risks. This provides a platform for scrutiny and challenge at key stages of delivery and development of the schemes. The Council has now put in place new overview and scrutiny committees that will have a role in ensuring that the Council's major projects secure the desired outcomes. The performance management framework provides the Council with a measure of the effectiveness of key services as mapped to its strategic 'Outcomes'. Overall these measures concluded performance across the wide range of council services to be within an acceptable range of the target or showing good progress. Information and data quality is key to effective performance management. The Council's Transparency Project includes actions to deliver compliance with information assurance standards. The Data Quality Strategy is to be reviewed as part of this project to ensure that the organisation promotes the importance of good quality data as part of effective information governance. The 2012/13 VFM Conclusion highlighted weakness in the arrangements to procure goods and services. Council has now reviewed its procurement activity, established a Procurement Board, engaged some consultancy support and is now working with another authority to implement an improvement plan. Further developments in 2013/14 include data analysis, the streamlining of some procedures and has secured savings of £0.9m in that year. This continues to be an area of development and it is important that the Council effectively links its contract management, procurement and commissioning activities to avoid duplications and maximise the savings to be secured. In March 2013 the Council received the results of an OFSTED inspection which concluded the arrangements for the protection of children to be 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. In response the Council developed a Children's Improvement Plan. The multi agency Improvement Board confirmed that there had been significant improvement since the inspection through the implementation of the Improvement Plan to meet the recommendations from OFSTED and the Improvement Notice. Where the recommendations are not yet fully implemented, the new improvement plan, developed in conjunction with all partners, takes forward these remaining actions for review by the Improvement Board or the Local Safeguarding Children Board as appropriate. The Board noted that external validation from OFSTED (Improvement Pilot) and the LGA peer review confirmed their view that there had been significant improvement since the original inspection. Further assurance is provided by peer challenges, audit, reviews, surveys and performance information.	Overall we are satisfied that the Council has adequate arrangements in place to improve efficiency and productivity

Theme	Summary findings	Overall Conclusion
Prioritising resources	There is leadership from senior management and members on prioritising resources and spending reductions and action to review and challenge activities which do not contribute sufficient value towards the Council's Outcomes. Effective consultation remains important to engage staff and the public and to promote transparent decision making as the Council makes further changes to the way it delivers its services. Evidence of decisions, consideration of key factors and the rationale for judgements are documented through the reports and minutes of the Committees, Cabinet and Council meetings. The revised project and programme management approach is now an established part of the Council's governance framework and informs decision making. The Council challenges the way activities are delivered and explores new ways of delivering activities. The Council has established an agreed process of key reporting and decision stages to set up a new delivery vehicle and to assess the different options to determine the appropriate way forward. The performance management framework and project management arrangements provide a mechanism for management and Members to identify and monitor the impact of their decisions upon service quality and performance in priority areas. There is scope to identify where benchmarking information can be used effectively to drive improvement and to include key unit cost information within the performance management framework as a measure of financial performance alongside service delivery outcomes. The Better Care Fund is part of a staged process to focus and increase joint working with the NHS seeking to improve the health and well being outcomes for Cheshire East residents. The Council developed its joint Better Care Fund Plans for submission in April 2014 but at this initial stage, these plans did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators. Throughout 2014/15, the partners need to work together to develop and apply the plans to integrate care and support services across the borough and deliver on the required national conditions set by the Department of Health. The more detailed plans will be submitted in September 2014.	Overall we are satisfied that the Council has adequate arrangements in place to prioritise resources

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 provision of non-audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	205,050	206,120
Grant certification (actual fee is not finalised)	26,900	22,501
Total audit fees	**231.950**	**228,621**

The Audit Commission has provided the Council with a direct rebate on the audit fee of £28,061. This reduction is not reported in the fees above.

There is an additional fee of £1,070 is respect of additional work that is required for opinion purposes on business rates, as we are no longer required to complete work grant certification work in this area.

To reflect this the indicative fee for grant work has reduced from that reported in the audit plan to £22,501 to reflect the removal of fees for schemes no longer requiring certification (such as business rates) and also to reflect the removal of council tax benefit from the housing benefit subsidy scheme.

The actual fee for grant certification is not yet finalised as this work is not complete. Any proposed amendments will be discussed with the Chief Operating Officer and must also be approved by the Audit Commission.

Fees for other services

Service	Fees £
None	

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we have previously reported to the Audit and Governance Committee, the safeguards to mitigate the threat to the independence of the auditor arising from the appointment of the former Engagement Lead to the post of Head of Corporate resources and Stewardship (Deputy Section 151 officer). These arrangements have been agreed with the Audit Commission and are reported at page 14 of the Audit Plan.

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 – financial statements

This action plan includes the recommendations arising from our audit of the financial statements (the specific recommendation in respect of the value for money conclusion are reported at appendix B).

Rec No.	Recommendation	Management response	Responsibility & timescale
1 **Page 13**	The presentation of adjustments to cost and value of property plant is not in accordance with the Code. We recommend that the Council complete a full review in 2014/15 of the underlying asset register and the associated capital expenditure, with specific regard to the Code requirements to ensure that : • Where assets are enhanced and an adjustment is identified to remove the value of the original asset being replaced that this is reported as de-recognition in the cost or valuation section of the note and also as de-recognition in the accumulated depreciation and impairment section. • Any further adjustment that meets the definition of impairment, is reported in the accumulated depreciation and impairment section of the note.	A full review of the asset register and associated capital expenditure will be undertaken in 2014/15 to ensure full consideration of the Code requirements.	Corporate Finance Manager March 2015
2 **Page 14**	The Council should ensure that it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. This assessment needs to take place sufficiently early in the close down process to determine if any additional revaluations needs to take place. The final assessment must then cover all those assets that have not been subject to revaluation in the year. This assessment must be backed up with analysis and market trend information appropriate to the Council's circumstances.	The Council will ensure it has appropriate arrangements in place to make a formal assessment of whether the carrying value of property plant and equipment is not materially different from the fair value at the end of the reporting period. Earlier engagement will take place with the external valuers, Deloitte to ensure an assessment has been undertaken on all assets not subject to revaluation within the year.	Head of Corporate Resources and Stewardship March 2015
3 **Page 15**	There remain some differences between the Council 's overall PFI liability and future disclosures and those shown by the GT model. These differences are due to the way in which the initial construction costs of the scheme were derived and apportioned over the properties involved in the scheme. We recommend that the Council reviews the initial construction costs within the accounting model .	We will review the initial construction costs within the accounting model - agreed in 2009/10. We will reconsider our accounting treatment in consultation with the auditors.	Corporate Finance Manager March 2015

Rec No.	Recommendation	Management response	Responsibility & timescale
4 **Page 17**	We recommend that the Council consider the accounting treatment of Dedicated Schools Grant and assess whether any balances to be carried forward each year would be more appropriately accounted for as an earmarked reserve.	We will review accounting treatment of the Dedicated Schools Grant as part of the 2014/15 closedown process.	Accountancy Services Manager March 2015
5 **Page 17**	We recommend that the Council reviews its approach to capital accounting entries in 2014/15: • To operate a dedicated capital receipts reserve where the accounting entries can then be more clearly shown to be consistent between the reserves, the Movement in Reserves Statement adjustment note and the statement of capital expenditure and financing at note 34. • To amend the use or alternatively remove the unnecessary disclosures for the capital grant unapplied account to report grant received and applied in year as a direct charge to the capital adjustment account.	The requirement for a dedicated earmarked reserve for revenue contributions to future capital expenditure will be actioned in 2014/15. We will review the disclosure of the capital grant unapplied account as part of the 2014/15 accounts closedown process.	Corporate Finance Manager March 2015
6 **Page 17**	We recommend that the Council reviews its remaining balances held as receipts in advance to reassess the requirement that these may only be held as a liability where there are conditions in place that are not yet satisfied, and that otherwise the income should be recognised .	The Council will review balances held as receipts in advance to assess the appropriate accounting treatment.	Corporate Finance Manager March 2015
7 **Page 20**	Looking forward, the Council is more likely to be subject to the requirement to prepare group accounts. This assessment of the scope and application of these requirements should be identified and factored into closedown arrangements. This should also be discussed with the audit team as soon as possible. There are specific and additional audit procedures that auditors are required to complete where group accounts are prepared.	The development of group accounts will be considered as part of the planning arrangements for the 2014/15 closedown, in particular the resources and training requirements. We will discuss our proposals with the auditors at an early stage.	Chief Operating Officer March 2015
8 **Page 25**	Continue to pursue an IT solution for the payment posting delay in Oracle, so that payments are properly accounted for in the general ledger without the need for manual intervention. In the meantime ensure that appropriate evidence is retained to support all adjusting journals.	The Council is working with CoSocius to review the processes and ensure payments are properly accounted for without the need for manual intervention.	Corporate Finance Manager Corporate Manager Information Communication Strategy and Technology March 2015

Rec No.	Recommendation	Management response	Responsibility & timescale
9 Page 25	Specific work on IT controls recommended that : • Password minimum length should be in line with best practice and set to be at least 9 characters • Documented policies and procedures addressing the topics of batch administration, monitoring and error handling within Northgate should be established, formally approved by the appropriate members of the organisation, and communicated to relevant personnel responsible for implementing them and/or abiding by them. • 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. Alternatively, management should implement a formal / documented monitoring process designed to review the actions performed within the Oracle application and database production environments by developers. • Management should periodically perform formal reviews the user accounts and group membership assignments within Active Directory for appropriateness.	• CoSocius is undertaking password complexity work and will implement new policies in line with adopt best practice. It is recognised that financial management access requires additional security i.e. two factor authentications. • CoSocius is reviewing a number of elements including Standardisation of Smartforms, and other improvements needed via increased automation. This will reduce errors. We will use Meta-compliance to communicate, train and test adherence to these policies. • CoSocius has the access to carry out system administration and development. Segregation between these access rights is required and will be in place by March 2015. This work has started and assurance activities are ongoing. • Managers are responsible for ensuring staff have the correct and appropriate permissions to perform their role and to keep that up to date. We are reviewing starters and leaver data to strengthen accountability and streamline processes. Staff are reminded of their responsibilities in a number of ways including Team Talk.	Corporate Manager Information Communication Strategy and Technology March 2015

Appendix B: Action plan – value for money

Area for consideration	Recommendation	Management response	Responsibility	Timescale
Financial Governance	Encourage focus of consideration and discussions of the Audit and Governance Committee to provide apolitical, effective oversight, support and challenge for the Council's financial management and the system of internal control.	The Chief Operating Officer will continue to work with the Chairman/Vice-Chairman and the established Officer/Member groups to: • develop the role of the Committee; • further develop the approach to agenda planning; • provide an appropriate focus for debate; and • implement the improvement actions agreed in June 2014 in response to the effectiveness self-assessment.	Chief Operating Officer	March 2015
Financial Governance	Include key unit cost information within the performance management framework as a measure of financial performance alongside service delivery outcomes.	The Chief Operating Officer will consider appropriate use of unit costs in performance reports. For example, indicators such as % spending on professional services and £m spending on assets could be included alongside appropriate targets. Financial data, which forms part of the Commissioning Plans, will continue to be analysed and compared during the medium term financial planning cycle.	Chief Operating Officer	March 2015
Financial Governance	Demonstrate the improvements to the capital planning process, gateway reviews and managing the delivery of these projects to reduce the amount of slippage and inform accurate forecasting in 2014/15.	The targets of remaining within a £14m Capital Financing Cap and also to restrict any new external borrowing will stay in place for 2015/16. The approach to the monitoring and management of capital profiling and forecasting will continue to be refined. This will provide a clear distinction between active management to re-profile expenditure and identification of genuine slippage against committed capital schemes.	Chief Operating Officer	March 2015

Area for consideration	Recommendation	Management response	Responsibility	Timescale
Financial Control	Reassess the governance and risk management arrangements for the new ASDVs and the Council's commissioning relationship with them, to make sure that they are operating as intended and they enable the Council to sufficiently identify and address any risks to service delivery or internal controls.	The Council will continue to: • review and develop the governance framework for ASDVs in the light of experience, and as operational arrangements mature, in accordance with the approach set out in the report to Cabinet in March 2014; and • embed quarterly monitoring of the operational and financial performance of its companies, within its usual reporting processes.	Chief Operating Officer Executive Director Strategic Commissioning	Ongoing
Prioritising Resources	The submitted Better Care Fund plans did not include details of specific schemes, financial plans, risk assessment or fully developed key performance indicators. Throughout 2014/15, the partners need to work together to develop and apply the plans to integrate care and support services across the county area.	The Council is continuing to develop the BCF arrangements with its Clinical Commissioning Group partners. Further assessments of progress are being undertaken by the Department of Health. The Council, along with its partners is continuing to develop, discuss and assess progress in line with Department of Health Guidance. The more detailed plans will be submitted in September 2014.	Executive Director of Strategic Commissioning Director, Adult Social Care	March 2015
Improving Efficiency and Productivity	Review the Data Quality Strategy and the associated measures as part of the Transparency Project to promote the importance of good quality data in effective information governance.	The current Data Quality Strategy will be reviewed to ensure that it remains fit for purpose. A fundamental review of the Strategy will be undertaken as part of the Council's developing approach to increasing transparency.	Chief Operating Officer	March 2015
Improving Efficiency and Productivity	Continue to improve procurement arrangements, effectively linking these with contract management and commissioning activities to avoid duplication and maximise savings to be secured.	The Council's Procurement Improvement Plan is being implemented - overseen by the Procurement Board. The work includes a review of Contract Procedures Rules, introduction of Risk Based Sourcing, enhancing the ability of local suppliers to compete for Council contracts. A review of all commissioning activity is scheduled to ensure that the Council is able to maximise the savings and vfm of all contract renewals.	Chief Operating Officer	March 2015

Appendix B: Action plan – value for money

Area for consideration	Recommendation	Management response	Responsibility	Timescale
Improving Efficiency and Productivity	Continue to implement the recommendations arising from the OFSTED inspection and improvement notice regarding the arrangements for the protection of children.	External evaluation, including the Ofsted improvement pilot and Local Government Association (LGA) Peer Review, has confirmed that good progress has been made in improving safeguarding arrangements for children in Cheshire East. As at the end of March 2014, a significant number of Ofsted and Improvement Notice recommendations have been 'signed off' by the Improvement Board. A new Children's Improvement Plan for 2014-15 has been approved by the Improvement Board to meet the outstanding recommendations. Audit and other activity is also now monitored by the multi-agency Local Safeguarding Children Board (LSCB).	Director of Children's Services	Next Ofsted Inspection (the Improvement Notice will not be lifted until the next inspection (unannounced)

Appendix C: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

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 2014 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, the 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 2013/14.

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 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Cheshire East Council as at 31 March 2014 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 2013/14 and applicable law.

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 October 2013, 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 2014.

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.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, 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 ended 31 March 2014.

Certificate

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 authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Jon Roberts

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

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