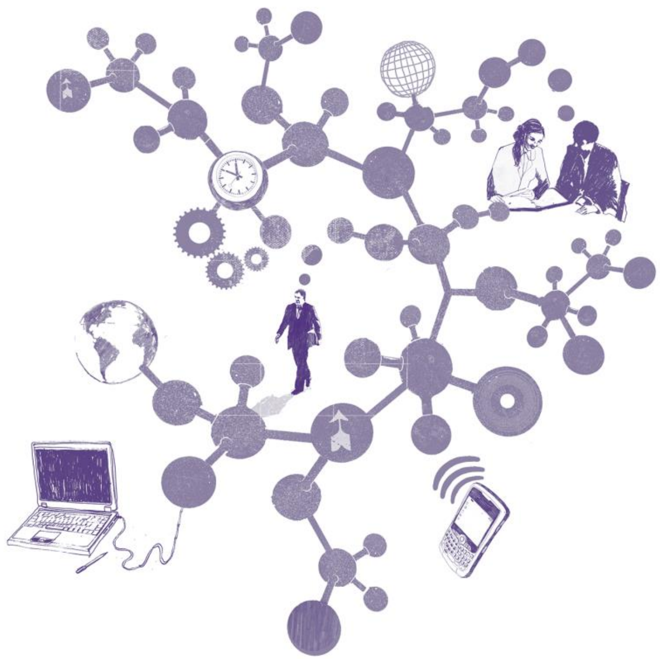
The Audit Findings for Cheshire East Council

Year ended 31 March 2015

September 2015



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17 September 2015

Dear Peter

Audit Findings for Cheshire East Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Cheshire East Council, the Audit and Governance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours sincerely

Jon Roberts

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Cheshire East Council's (the Council) financial statements which cover the group and the 'single entity' accounts for the year ended 31 March 2015. 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 UK&I).

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 and 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 March 2015 (reported to Audit Committee on 19 March) except to reassess the level of risk associated with welfare expenditure. We have reviewed our assessment and have concluded that this does not represent a "reasonably possible" risk of material misstatement.

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

- some aspects of our testing of the collection fund, bad debt provision, government grants
- review of the consolidation of the accounts of the wholly owned companies. deferred in order to carry out the audit work on the accounts following a small number of adjustments arising from the company audits
- review of the final version of the financial statements and consideration of detailed amendments including transfers to academy schools and the impact of these changes on other areas of the accounts (including the cash flow statement and the movement in reserves statement).
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- Whole of Government Accounts

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements.

We have identified two adjustments that affects the Group and Council's reported financial position. These amendments relate to the accounting treatment of assets when schools transfer to academy status. As these capital accounting entries are also reversed through the movement in reserves statement, this has no impact on overall reserves. The Council have adjusted the accounts for this matter as set out at page 23. The Council are also making a small number of adjustments that affect the group financial statements.

The draft financial statements for the year ended 31 March 2015 recorded total comprehensive income and expenditure of £103.782m for the group. Once our audit is finalised and all adjustments are reflected in the financial statements, we will confirm the overall position reported in the audited financial statements.

Further details are set out in section two of this report.

Value for Money conclusion
We are pleased to report that 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 Value for Money conclusion.

The Council continues to demonstrate good financial performance and has made changes to the way in which its services are delivered. Looking ahead, the Council's financial planning identifies a shortfall of £36m which will required further measures to address this financial gap in 2016/17 and 2017/18 through cost reductions or growth in income.

Further detail of our work on Value for Money is set out in section three of this report.

The National Audit Office is currently consulting on the guidance to auditors in respect of their duties for reviewing Value for Money Arrangements for 2015/16. The outcome of this consultation will determine our future audit approach.

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

Roles and responsibilities
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. This includes our findings in relation to the Council's IT controls where we have identified a number of areas where these can be further strengthened. Further details are provided within section two of this report

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

We have made a small number of recommendations in respect of the financial statements for the Council to take forward and these are set out in the action plan in Appendix A.

Looking ahead, we will be discussing with officers how we can work with you to bring forward the accounts and audit completion period, ahead of the changes to the national deadlines in 2017/18.

Acknowledgment

During the year we have welcomed the opportunity to participate in your accounts steering group alongside your key finance staff. This engagement has given us a much better understanding of your arrangements and the improvements that you have made including the implementation of our recommendations. Overall, this has contributed to a more efficient audit.

Whilst we retain our independence throughout, we value this collaboration and will continue to work with the Council to support on-going improvements to processes, working papers and our own testing approach.

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 2015

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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit Committee on 19 March. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have made a small number of changes to our Audit Plan communicated to you on 19 March:

- Following our initial work on the processes and controls in place around the accounting for welfare benefits, we have concluded that this does not represent a "reasonably possible" risk of material mis-statement as previously reported. This assessment has some impact on our sample strategies but otherwise there are no implications for audit work. We have carried out testing in accordance with the methodology required to certify the housing benefit subsidy claim.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 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, but where we have determined that the relating to revenue recognition may be rebutted.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cheshire East Council, we determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Cheshire East Council, mean that all forms of fraud are seen as unacceptable.	We have rebutted the risk of fraud arising from revenue recognition and this assessment remained valid. Our work to review your revenue recognition policies and test material revenue streams has not resulted in any significant issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA (UK&I) 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 has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgments.

Audit findings against other risks

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

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Creditors understated or not recorded in the correct period	We documented the processes and key controls in place around the accounting for operating expenses and carried out walkthrough of the key controls to assess the whether those controls were in line with our documented understanding. We have completed testing including: • the completeness of the subsidiary system interfaces and control account reconciliations • obtaining an understanding of the accruals process and test accruals • cut off testing of purchase orders and goods received notes (both before and after year end). Testing also cover a sample of operating expenses covering the period 1/4/14 to 31/3/15 to ensure they were 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 (continued)

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 carried 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 • review of monthly trend analysis of total payroll • substantive testing of senior officer remuneration. Testing also covered a sample of employee remuneration payments covering the period 1/4/14 to 31/3/15 to ensure they were accurately accounted for and in the correct period.	Our audit work has not identified any significant issues in relation to the risk identified. Audit work on associated disclosures identified an error affecting note 22 Officer Remuneration where: • The underlying report generated did not include all the required elements of remuneration and so did not provide an appropriate basis to count the numbers in each band • The Code guidance clarifies that for the purpose of the remuneration disclosures, where the authority is not the employer, then the remuneration should not be included in these disclosures. The Council have confirmed that the staff of voluntary aided and foundation schools need to be removed. The accounts are amended for these matters.
Welfare expenditure	Welfare benefit expenditure improperly computed	We documented the processes and controls in place around the accounting for welfare benefits and carried out walkthrough tests to confirm the operation of controls. We will carry out testing in accordance with the methodology required to certify the housing benefit subsidy claim	Following our initial work on the processes and controls in place around the accounting for welfare benefits, we have concluded that this does not represent a "reasonably possible" risk of material mis-statement as previously reported in our Audit Plan. This assessment has some impact on our sample strategies but otherwise no implications for audit work. We have completed sufficient work on welfare expenditure to form our judgement on the financial statements. No material issues have arisen that require reporting to members.

New issues and risks identified during the course of the audit

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

	Issue	Commentary
1.	**Accounting for schools** In 2014/15 CIPFA/LASACC updated the 2014/15 Code of Practice on Local Authority Accounting in the United Kingdom (the Code) to clarify the accounting requirements for local authority maintained schools. This concluded that maintained schools meet the definition of entities controlled by local authorities which should be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the Code requires local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. A key consideration is whether the non-current assets used by the school should be recognised by in the Council's accounts. Authorities are required to form judgements on a case by case basis of the rights and obligations of all parties relating to the use of the buildings and underlying land. This could mean that there may be differing recognition judgements with classes of schools. This change may require disclosures including: • the accounting policy on accounting for schools • a prior period adjustment (where this results in a change in how the authority previously accounted for schools) • disclosure of critical judgements.	We considered the Council's assessment that the accounting system in place, provides for schools income, expenditure, assets and liabilities to be included in the financial records and hence the financial statements. We considered the arrangements that the Council put in place to establish whether for each school, they have captured all the financial information relating to the school as an entity including income, expenditure and assets and liabilities and to eliminate transactions between the Council and schools in preparing aggregated accounts, in so far as these might be material. We concluded the arrangements to be adequate. We considered the Council's assessment and judgements on a case by case basis as to whether the non current assets used by voluntary aided, voluntary controlled and foundation schools should also be recognised in the Council's accounts. We concluded the arrangements to be appropriate and the assessment to be reasonable. We confirmed the valuations for the non current assets brought onto the balance sheet to the valuation report provided by the Council's external valuer. When a prior period adjustment is required to account for a change in accounting policy that has a material impact, then a third balance sheet is also required. The Council has prepared appropriate disclosure notes that explain all the adjustments but has omitted the balance sheet as at 1 April 2013. The accounts are amended to address this.

New issues and risks identified during the course of the audit

	Issue	Commentary
2.	**Implications of accounting for schools on transfer to academy status** Where a school becomes an academy the Council's accounting policy has been to derecognise the full carrying value as an asset disposal on transfer. The Code adaptation in 2014/15 treats schools as entities which are consolidated into the authority single entity financial statements. CIPFA has recently clarified its guidance in this area. This Code considers the establishment of the academy to be a transfer of function. As such, the reduction in net assets is recognised in the Financing and Investing Income and Expenditure (FIIE) line of the CIES rather than being a loss on disposal of the property asset which was previously the case. This distinction is particularly relevant where assets have been brought on to the balance sheet as a result of the 'control' assessment rather than being directly owned by the Council.	On considering the change to the Code and the treatment of schools as entities, the Council have brought non current assets relating to 28 voluntary aided and 11 foundation schools onto the balance sheet from 1 April 2013. There were then 8 of these schools which became academies in 2013/14 or 2014/15. Of these, transfers of the non current assets with a carrying value of £10.062m relating to three schools were accounted for in the wrong period. These transfers took place in 2013/14 but the transaction was recorded as thought it was a 2014/15 accounting entry. The accounts are amended for this error, the impact on 2013/14 forms part of the revised prior period adjustment. Audit testing also identified that the balance sheet contained non current assets with a value of £0.891m that related to a primary school that had undergone a transfer to academy status in 2014/15 but where the associated non current assets were not 'derecognised' as a loss on disposal. The accounts are amended for this error.

Other matters discussed with management

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 9 -13, there are other audit findings that we wish to report to you.

	Issue	Commentary
1.	**Property, plant & equipment – revaluation** In our previous audit we highlighted that the Code requires that "revaluations shall be made with sufficient regularity 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 items within a class of property, plant and equipment are re-valued 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. However, a class of assets may be re-valued 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. Valuations shall be carried out at intervals of no more than five years."	As previously reported, all assets within the same class have not been valued in the same year and the class of assets is not disclosed separately in the property, plant and equipment note. The Council has included full disclosure in the accounts on the approach taken. We have previously highlighted our view that IAS16 requires the revaluation of each class of assets to be completed within a 'short period' and that our view is that this 'short period' should be within a single financial year to ensure simultaneous valuations and to 'avoid reporting a mixture of costs and values as at different dates'. Whilst there is no change to the Code for 2014/15, CIPFA have sort to address this with specific interpretation stated in the 2015/16 Code to permit revaluation once every five years. Whilst these considerations have provoked much debate (now addressed for future years), this is secondary to the requirement that the carrying amount of assets does not differ materially from the fair value at 31 March 2015. Supported by information provided by its Valuer, the Council has demonstrated that the carrying amount of assets does not differ materially from the fair value at 31 March 2015 and provided sufficient disclosure in the financial statements.
2	**Leases** The Council has taken out a finance lease for the lease of refuse vehicles from SGEF. The equipment is then provided to Ansa, the wholly owned subsidiary and accounted for as the Council as a lessor.	The lease has been judged to meet the definition of a finance lease. The lease liability of £2.7m is included in note 31 'Finance leases – council as a lessee' and as . The disclosure at note 31 'Finance lease – Council as a lessor', discloses that the council has leased the equipment to Ansa. The balance of £2.7m is split between short and long term debtors. The equipment is appropriately excluded from the Council's asset register. No formal lease agreement is in place between the Council and the wholly owned subsidiary however the Council has received the rental payments expected to date and the nature of the relationship between the two parties, mean that this is unlikely to expose the Council to risk. Nevertheless good practice would be for lease documentation to be put in place. These internal transactions need to be eliminated on the consolidation into the group accounts. This adjustment in respect of this lease has been omitted in error. The group accounts are to be amended.

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Ansa Environmental Services Ltd Orbitas Bereavement Services Ltd Transport Solutions Ltd Engine of the North Ltd	No	Analytical	None	Analytical procedures at the group level - desktop review of the Council's consolidation of the financial results of the joint venture into the group accounts using the 'equity' method.	Our audit work in respect of the group consolidation is not yet complete. We will report any significant findings to those charged with governance. As set out at page 14, we have identified an asset and liability balance relating to a lease that was not eliminated on consolidation. The council are amending for this in the group accounts.
CoSocius Ltd : 50% joint venture interest which commenced trading with effect from 1 May 2014.	No	Analytical	None	Analytical procedures at the group level - desktop review of the Council's consolidation of the financial results of the joint venture into the group accounts using the 'equity' method.	Our audit work in respect of the group consolidation is not yet 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	Assessment
Revenue recognition	• Government grants and contributions are recognised in the Comprehensive Income and Expenditure Account when there is reasonable assurance that the payment will be received and conditions will be satisfied. • Revenue income is credited when it falls due (when the council provides the relevant goods or services). • Interest due to or from third parties in relation to loans and investments, is accrued in full at the year end. • The CIES includes the Council's share of the accrued income for council tax and non domestic rates.	The Council's accounting policy for revenue recognition is appropriate, consistent with the Local Government Code of Accounting Practice and disclosures are sufficient.	●

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates & judgements

Accounting area	Summary of policy	Comments	Assessment
Judgements and estimates	An authority is required to disclose, the judgements that management has made in the process of applying the authority's accounting policies and that have the most significant effect on the amounts recognised in the financial statements. Critical judgments are set out at section 9 of the financial statements and include the Council's judgements over: • funding uncertainties that do not warrant impairment of assets • the assessment of PFI schemes that determines that they fall within the scope of IFIRC 12 (ie assets and liabilities are recognised on the balance sheet). • The consideration of IFRS10 and control over schools, including the treatment of non current assets for foundation and church schools and the changes on schools transition to academy status • the valuation of property plant and equipment. Section 11 provides information about assumptions made about the future, and other major sources of estimation uncertainty. These include: • Pension liability • Arrears and impairment of doubtful debts • PFI and similar contracts • the valuation of property plant and equipment.	Our findings from our review of judgements and estimates are: • We have reviewed the Council's disclosures for these items and suggested a small number changes to improve disclosure • We are satisfied that they are appropriate and in accordance with the requirements of the CIPFA Code of Practice on Local Authority Accounting. • 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. • PFI – we have compared the Council's accounting entries with our own estimates and are satisfied that the Council's accounting estimates fall within our estimate range. The judgement and policies relating to valuation of property plant and equipment and also accounting for schools is considered further overleaf.	●

Assessment

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

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Estimates and judgements - PPE	Note 6 of the accounts sets out the authority's rolling programme of revaluations. This shows that the date of valuations for other land and buildings can vary between 2011 and 2015. Supported by information provided by its Valuer, the Council has demonstrated that the carrying amount of assets does not differ materially from the fair value at 31 March 2015 and provided sufficient disclosure in the financial statements In our view, however, this rolling programme does not meet the Code's current requirement to value items within a class of property simultaneously or with a short period, in order to 'avoid reporting a mixture of costs and values as at different dates'.	As previously reported, it is our view that this rolling programme does not meet the Code's current requirement to value items within a class of property simultaneously or with a short period, in order to 'avoid reporting a mixture of costs and values as at different dates However we accept the Council's approach on the basis that we do not consider that it is likely to lead to a material misstatement in the accounts. The Council have enhanced their disclosures to report their assessment. Whilst there is no change to the Code for 2014/15, CIPFA have sort to address this with specific interpretation stated in the 2015/16 Code to permit revaluation once every five years, provided that carrying amount does not differ materially from that would be determined using fair value at the end of the reporting period.	●
Judgements - local authority maintained schools premises	The Council's schools are run under a number of arrangements including Local Authority, Foundation schools and Voluntary Aided and Voluntary Controlled Schools. The Council have completed an assessment for each school against recognition criteria	In applying the new accounting arrangements for schools set out in the updates to the 2014/15 Code (see page 12) the Council have changed their previous accounting policy with regard to the recognition of these non current assets. We consider that the policy is appropriate and that the disclosure to explain the nature and impact of the prior period adjustment is adequate.	●
Judgements - transfer of schools to academy status	Where a schools becomes an academy the Council judges that it no longer retains control and removes the assets on the balance sheet (with the costs shown as loss on disposal on the consolidated income and expenditure account).	Overall the accounting policy to derecognise the assets on transfer is appropriate. As detailed at page 13, the Council have corrected the accounting treatment where assets are derecognised on transfer, with the costs now shown as a loss of control of an entity.	●

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

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed managements' assessment and related financial plans and forecasts and are satisfied that the going concern basis is appropriate for the 2014/15 financial statements.	●
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 identified some areas for improvement to the disclosures (including componentisation of non current assets, pensions transactions, financial instruments, schools). There are no significant issues which we wish to bring to your attention	●

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

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 Committee who confirmed there to be no material fraud and highlighted the summary provided by Corporate Fraud Update reported to the Audit Committee in March 2015 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.
4.	**Disclosures**	• Our review found no non-trivial omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed. • The accounts are amended to correct the details for some Board membership and appointment dates and the council has identified some corrections to be made to the values reported. • The audit identified a number of member and officer personal declaration forms which recorded nil returns, but for whom Board appointments had been disclosed as a result of officers checking the companies details. **Recommendation** It is recommended that the Council review its personal declaration forms and guidance to emphasise that the declaration in respect of related parties should include all Board responsibilities, including those with the wider group entities.
6.	**Confirmation requests from third parties**	• We obtained positive direct confirmations from PWLB, and other banks for loans and investment balances

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. We considered and walked through the internal controls for Employee Remuneration, Operating Expenses and welfare expenditure as set out on pages 10 - 11. The controls were found to be operating effectively and we have no matters to report to the Audit Committee in this regard.

As the Council uses Oracle which is an inherently complex financial system, our information systems specialists have completed a review of the controls operating in the Council's Oracle based IT systems, liaising with the Council's service provider – CoSocius. The detailed recommendations have been provided to the Council's management in order that they can ensure that appropriate action is taken by their IT provider.

	Assessment	Issue and risk	Recommendations
1.	●	Our review of the IT control environment at the Council and CoSocius (where appropriate), identified potential risks relating to: • the segregation of user roles within the Oracle system • inappropriate access to business process controls. These weaknesses can result in an increased risk that inappropriate postings can be made and may go undetected. The comprehensive review has also resulted in recommendations in areas including system administration and privileges, access rights, audit logging and password controls	The Council should ensure the necessary improvements are made to strengthen controls in these areas.
2	●	Our review of journal transactions identified that 10 transactions were processed through an account code 000000 "FC Direct Employees" which falls outside the chart of accounts. 7 of the 10 transactions had been corrected by the year end but a balance remained of £8,000.	Although the residual balance is clearly trivial for the purpose of the accounts, the Council should ensure that it is not used and periodically review the code to confirm this.

Assessment

● Weakness identified – but not considered to represent a risk of material misstatement

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.

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial 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. All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position. There are no unadjusted mis-statements that we need to bring to your attention.

Impact of adjusted misstatements

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1	Accounting for transfer to academy schools as detailed at page 13 to remove this entry from the 2014/15 transactions (but will be replaced by similar as part of the PPA)	(£10,062)		(10,062)
	• Other operating expenditure		£10,062	
	• Non current assets			
	This amendment affects the group CIES and the Cheshire East CIES.			
2	Accounting for transfer to academy school (Peover) as detailed at page 13 affecting:			
	• Other operating expenditure	891		891
	• Non current assets			
	This amendment affects the group CIES and the Cheshire East CIES.		(£891)	
3	Lease arrangement between Council and ANSA, not removed on consolidation to group accounts, as detailed at page 15 affecting the group balance sheet only:			
	• Other long term liabilities		2,289	
	• Short term creditors		418	
	• Long term debtors		(2,289)	
	• Short term debtors		418	
	Overall impact	**(£9,171)**	**£9,171**	**(£9,171)**

Impact of uncorrected misstatements in the prior year

	Detail of matters reported in our audit findings report for 2013/14	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact in 2014/15 Reason for not adjusting in 2014/15
1	In 2013/14 we identified a variance between the PFI liabilities disclosed on the Statement of Financial Position and our audit estimate.		5,358	Management reviewed the underlying model during 2014/15 and this difference is now removed.
2	Uncertainty relating to the accounting treatment of Dedicated Schools Grant where accounted for as receipt in advance, rather than being accounted for as income and transferred to an earmarked reserve.	(6,028)	6,028	Corrected in 2014/5

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.

There were a number of amendments to improve the format and presentation of the accounts including the consistent use of brackets and more clearly identifying where values are affected by the prior period adjustment relating to accounting for schools..

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	£17,232	Note 6 Property plant and equipment	To remove adjustments appearing against ' other movements in cost and value' in the categories of vehicles plant and equipment and infrastructure that moves accumulated balances between the cost and depreciation sections of the note. This has no impact on the carrying value or the accounting entries. The entries were intended to simplify subsequent accounting entries on revaluation but are considered to be unecessary.
2	Disclosure	£10,062	Note 6 Property plant and equipment	Correction for the accounting for transfer to academy schools as detailed at page 13 to remove the disposal entry from the 2014/15 transactions but replaced by similar as part of the PPA affecting 2013/14
3	Disclosure	various	Note 8 Financial instruments	The financial instrument disclosures are amended to separately report the cash balance and also to correct the value of debtors reported as financial instruments to reflect the element of the bad debt provision of £15.7m that relates to these. Additional disclosure required to include an analysis of the age of financial assets that are past due as at the reporting date but not impaired and also an analysis of financial assets that are individually determined to be impaired as at the reporting date, including the factors the authority considered in determining that they are impaired.

Misclassifications & disclosure changes continued

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
5	Disclosure	various	Note 22 Officer remuneration banding disclosures	The remuneration value is required to include termination benefits, allowances, bonuses etc. The note should also exclude school staff who are directly employed by the governing body rather than the local authority.
6	Disclosure		Note 25 Audit fee	Amendment to disclosure of audit fee to separate the disclosure of the rebate awarded by the Audit Commission and fees for audit related services work .
7	Disclosure	narrative	Note 31 Finance leases lessor	Additional narrative to describe new lease arrangement for land at Oakdene Court
8	Disclosure	narrative	Note 32 Changes to accounting policy and prior period adjustment Note 42 Accounting policy - Schools accounting	Improvement to explain the accounting policy relating to income and expenditure in relation to schools
9	Disclosure	narrative	Note 36 Contingent liabilities and Note 38 Critical judgements	Remove disclosure relating to the NDR appeal as not applicable in 2014/15. Also
10	Disclosure	narrative	Note 34 related party disclosures	Corrections to disclosure as referred at page 21
11	Disclosure	456	Collection fund – contribution to prior years surplus 2013/14	Correction to remove values reported in error for the comparative year. No impact on overall totals.

Section 3: Value for Money

Value for Money

Value for money conclusion

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

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

We are required to give our VfM conclusion based on two criteria specified by the Audit Commission which support our reporting responsibilities under the Code:
The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

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

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

Overall our work highlighted that the Council has appropriate arrangement in place for securing financial resilience.

There are effective arrangements in place to prepare and review the financial plans and to monitor and manage revenue and capital budgets. This includes regular reports to management and members on financial performance during the year and key issues affecting services and delivery of the Council's objectives.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity

Overall our work highlighted that the Council has appropriate arrangement in place for securing economy, efficiency and effectiveness.

The Council has effective arrangements in place which enabled it to deliver savings, addressing the financial gap, originally identified as£8.3m for 2014/15 and £6.6m in 2015/16. These funding pressures continue and the Council has identified that it needs to deliver recurrent savings of £13m for 2016/17 and then additional savings of £10.2m in 2017/18. This financial gap, which whilst not as large as that faced by Councils with greater reliance on government grant, represents a significant challenge. This will require the Council to continue to identify where alternative service delivery arrangements and working co-operatively with partners, alongside other service improvements can help it to reduce costs and provide effective services.

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 has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	**Inadequate arrangements**

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating
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 2015: • The headline outturn position reports an underspend of £0.7m which represents a 0.3% variance from the revenue budget of £253.8m. • The reserves to gross revenue expenditure ratio illustrates that Cheshire East Council have levels of reserves that have increased over the last three years but at 9% (2013/14 was 6.9%) is in line with the comparatives available. This compares to 10.4% for near neighbours for 2013/14 • The Council' s working capital ratio has now increased to 1.23 at 31 March 2015 (based on draft accounts) compared to 0.93 in 2012/13. • The Council has maintained consistently high collection rates for council tax and business rates, with two year rates of 99.0% and 99.2% respectively against targets of 98.75%. • The Council has a strong local tax base and low dependence on government grant. The budget report for 2015/16 highlights that the funding for Council Services from Council Tax and Business Rates increased to over 78% of the total net funding. 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 that is derived from business rates. • Cash balances remained stable throughout the year, and no additional external borrowing was undertaken as the Council continued its policy of 'internally' borrowing to finance the capital programme. There were no cash flow difficulties resulting in inability to pay creditors on due dates or inability to comply with loan agreement terms. The Council's MTFS recognises that this level of internal borrowing will not be sustainable in the longer term and external borrowing may be required in future years. • All investments were made in accordance with the parameters set out in the Treasury Management Strategy Statement approved by Council on 27th February 2014 and updated on 26th February 2015. Additional Investment income and lower external interest charges have contributed to a £1.8m underspend on capital financing to be reserved for funding future capital expenditure. The average rate earned on investments (0.57%) is higher than the London Inter Bank 3 month rate. • Total employee expenditure (per the segmental reporting analysis included in the financial statements) has continued to reduce from £306.3m in 2011/12 to £232.1m in 2014/15. This reduction of 11% on costs reflects a 20% reduction in the number of people employed by the Council (headcount per Final Outturn review of Performance 2014/15).Cheshire East's employee headcount decreased by almost 20% between March 2014 and 2015. This reduction predominantly relates to employees transferring to the new companies.	**Green**

Theme	Summary findings	RAG rating
Strategic financial planning	The budget setting process for 2014/15 has moved the Council from a starting point of an £8.3m net budget deficit through to a balanced budget for the year. Similarly the gap between income and expenditure of £6.6m in 2015/16, has been removed. The projections included in the MTFP show the Council to have a funding gap of up to £36m up to 2017/18 (savings of £13m required for 2016/17 on a recurrent basis and an additional £10.2 in 2017/18). Overall though, this level of savings is not excessive for a Council of this size and Cheshire East is well placed to continue to : • secure recurrent rather than one off savings • attract new business (including the opportunities to build on the investment in the Alderley Park Investment Fund and associated Growth Fund) and create more jobs and new homes • engage in effective collaborative working, devolving service delivery and putting in place different delivery models. This need for additional savings and efficiency measures, whilst not as significant as that faced by those councils with a weaker local tax base and a greater reliance on government grant, represents a challenge that the Council must address. Overall the balance of funding of the gross revenue budget is changing. Greater reliance is being placed on local sources of income (Council Tax, Business Rates and fees and charges) as Central Government grant continues to be reduced. The Council has a planned approach to reduce its reliance on government grant through investment in economic growth and the domestic tax base. Cheshire East Council has agreed to enter into a business rates pool with the Greater Manchester authorities for 2015/16. The annual budget planning is 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.	**Green**

Theme	Summary findings	RAG rating
Financial governance	Throughout 2014/15 officers and members continued to demonstrate a good understanding of the current financial position and future implications, informed by comprehensive financial management information and budget development proposals that set out clearly the financial position and challenges faced by the Council. The process for setting the budgets, began at a much earlier stage of the year and followed a programme of discussions between members and officers and also included public engagement and consultation. The Council has robust procedures for monitoring revenue expenditure, and has delivered its budget in 2014/15 with transfers to earmarked reserves to support future investments. The reporting during 2014/15 confirms that the approach to the monitoring and management of capital profiling and forecasting has been refined with a clear distinction between active management to re-profile expenditure and identification of genuine slippage against committed capital schemes. Quarterly review of performance reports cover the financial position but also reflect on operational and service performance and key business developments. The Audit and Governance Committee have received appropriate information to inform their responsibilities for the annual governance statement, including assurance on the arrangements for risk management, the outcome of Internal Audit work, treasury management and information on the specific governance arrangements for the wholly owned companies and other delivery vehicles. Member have received support and training to enhance and focus the work of the committee. The Council have updated their annual 'Value for Money Overview' providing information on key financial health indicators , in the areas of local taxation, capital and treasury managements, reserves and debt and cost of services. Comparative unit cost information has also been used as a tool to inform the budget setting process. Overall we are satisfied that the Council has adequate arrangements for financial governance.	**Green**

Theme	Summary findings	RAG rating
Financial control	The Council has appropriate arrangements in place for revenue budget setting and monitoring. It also has a good record in the delivery of its budgets. In putting together a three year capital plan, the Council has a sufficiently long term view of the investment activity but has also improved its monitoring mechanisms to direct the focus to the progress and delivery of schemes in the shorter term. The Council incurred actual expenditure of £101.5m in 2014/15 against an approved in-year budget of £132.7m. The Council has improved its approach to capital monitoring by separating out elements of the programme that are noted as committed and in progress and monitors slippage against them during the year, as these schemes should have commenced prior to or during 2014/15 and a detailed forecast expenditure plan should be in place. This analysis identifies slippage of £24.9 from the total underspend of £31m. Overall the monitoring in place provides appropriate focus to the progress and delivery of schemes in the shorter term, recognising that the programme of work will require some flexibility between financial years. The Internal Audit Plan for 2014-15 includes the review of key financial systems, with the focus on identified high risk areas, review of new arrangements and follow up of previous recommendations. The Head of Internal Audit concluded that the Council's framework of risk management, control and governance is assessed as adequate for 2014/15 and provided assurance that there is a generally sound system of internal control adequately designed to meet the Council's objectives and key controls are generally being applied consistently. The Council continues to strengthen its risk management framework: - The Risk Management Policy is reviewed and updated at least annually. The Corporate Assurance Group continuing to monitor the effectiveness of risk management arrangements and support the development and embedding of good practice in risk management. The Audit and Governance Committee receive risk management updates, overview of key corporate risks and briefings on selected risk areas. Risk management forms part of the project and programme management methodology and risk register documentation is incorporated into the new Commissioning Business Plans. Arrangements to monitor the operational and financial performance of the Council's companies are incorporated into the established quarterly performance monitoring processes. The Council has reported its intention to improve reporting processes for its alternative service delivery vehicles for 2015/16. Overall, the Council has adequate arrangements in place with regard to financial control.	**Green**

Theme	Summary findings	RAG rating
Prioritising resources	Building on the vision set out in the Council's Three Year Plan, senior management and members have updated the MTFP and further progressed the major projects and change programmes to secure efficiency savings and prioritise resources. The budget setting process has involved consultation and engagement to identify how the Council should prioritise its spending and address its saving requirements. The Council has continued to review and challenge strategic priorities and cost-effectiveness of existing activities. 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. During 2014/15, the project and programme management approach contributes to the Council's governance framework and informs decision making. The Council has various mechanisms in place to ensure that cost savings plans do not have unintended consequences including budget consultation, monitoring of financial plans, and scrutiny of the quarterly business review that combine both service and financial performance. This allows the impact of financial cuts on services to be assessed. The Council engages in a range of partnership arrangements which include the Cheshire and Warrington LEP, the S75 arrangements for the Better Care Fund, and the involvement in the public-private sector partnership which will develop and continue to run Alderley Park. Engagement in these partnerships have provided the Council with opportunities for investment and growth that support the Council's objectives. The resources are identified and included in the MTFS where appropriate and through this and the commissioning plans being developed, it is evident that the Council has an understanding of the financial implications. Overall there is sufficient evidence that the Council, has engaged with partners to progress the Better Care Fund plans, to include details of specific schemes, financial plans, risk assessment and metrics to measure outcomes. The Council has entered into two Section 75 agreement with Clinical Commissioning Groups to pool funds totalling £23.9m to implement the local Better Care Fund. There were a number of iterations of the Better Care Fund plan and this was fully approved in December 2014. Throughout 2015/16, the partners will continue to work together to implement the plans to integrate care and support services across the county area. Redesigned and pilot health and social care joint schemes are now being implemented with all schemes anticipated to be operational from October 2015. The risk, finances and performance of these schemes continued to be monitored during 2015/16. The partners are taking a cautious and measured approach to the size of the pool and for 2015/16 have not introduced additional joint activity and commissioning resources into the pool. There remains scope for the scope of the pooled fund to expand to incorporate other service areas in future. The Local Plan Strategy sets out the Council's case for sustainable economic growth and is the Council's strategy to manage development in Cheshire East up to 2030. Since receiving interim inspection feedback 2014, the Council have prepared evidence and revised the plan. Looking ahead the inspectors examination of the Local Plan is expected to resume in the autumn of 2015. At this stage this matter is not considered to have a significant impact upon our overall assessment for the VFM conclusion. Overall we are satisfied that the Council has adequate arrangements in place for the prioritisations of its resources.	**Green**

Theme	Summary findings	RAG rating
Improving efficiency & productivity	The Council continues to contain its expenditure within available resources. 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 The Council's project management structure, including the formal gateway decision and reporting arrangements continued to provide a mechanism for scrutiny and challenge at key stages of delivery and development of the major or high risk schemes. Organisational restructuring continued in 2014/15, embedded the changes to the management team and extending the range of services delivered by wholly owned companies and other arms length delivery models. There are plans for further changes in the way services are delivered, both as a means of securing cost savings but also to introduce commercial practices and provide incentive and opportunity for growth. In our previous VFM conclusion we referred to the progress being made by the Council to respond to the results of the OFSTED inspection of the arrangements for the protection of children. In response the Council developed and updated a Children's Improvement Plan for review by the Improvement Board. The implications for devolution in the North West provide further opportunities for the Council along with partners to deliver integrated services with increased responsibility from central government. In summary, the Council continues to deliver efficiency and productivity improvements as part of the management of its resources.	**Green**

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. Cheshire East Council has established a series of arms length companies to provide services. The Boards of each of these companies have appointed Grant Thornton UK LLP as their external auditors. The financial results of these affiliates are consolidated into the Council's group accounts in 2014/15. As we are responsible for reporting on the group accounts, it is appropriate to report the fees for audit and other services provided to the Companies, to the Council's Audit and Governance Committee.

Fees

	Per Audit plan £	Actual fees £
Council audit 2014/15	206,120	
Grant certification 2014/15	32,500	
Total Council audit fees	**266,965**	**TBC**

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 PSAA Ltd.

Fees for subsidiaries and joint ventures

	£
External audit fee for the four wholly owned companies:	
• Engine of the North Limited	6,250
• Ansa Environmental Services Limited	11,750
• Orbitas Bereavement Services Limited	6,250
• Transport Service Solutions Limited	6,250
External audit fee for CoSocius Lmited (50% owned by the Council, 50% owned by Cheshire West and Chester Council)	13,500

Fees for other services

Service	Fees £
Audit related services	
Certification of teachers pension return (2013-14) for work completed in December 2014.	4,800
Non audit related services	
ASDM workshop provided in March 2015	6,100
Tax compliance fee for the four companies:	
• Engine of the North Limited	1,500
• Ansa Environmental Services Limited	1,500
• Orbitas Bereavement Services Limited	1,500
• Transport Service Solutions Limited	1,500
Tax clearance for the four companies plus Tatton Park Enterprises Limited	2,000
Tax compliance fee for Cosocius (of which 50% is attributed to the Council)	2,300

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the safeguards previously reported. We have complied with Financial Reporting Council'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 (UK&) 260, as well as other (UK&I) 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		✓
Matters in relation to the Group audit, (including scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud)	✓	✓

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	It is recommended that the Council review its personal declaration forms and guidance to emphasise that the declaration in respect of related parties should include all Board responsibilities, including those with the wider group entities.	Low		
2	Our review of the IT control environment at the Council and CoSocius (where appropriate), identified potential risks relating to: • the segregation of user roles within the Oracle system • inappropriate access to business process controls. • and in areas including system administration and privileges, access rights, audit logging and password controls. The Council should ensure the necessary improvements are made to strengthen controls in these areas.	Medium		

Appendix B: 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 2015 under the Audit Commission Act 1998. The financial statements comprise the Group Movement in Reserves Statement and the Cheshire East Council Movement in Statement; the Group Comprehensive Income and Expenditure Statement and the Cheshire East Comprehensive Income and Expenditure Statement; the Group Balance Sheet and the Cheshire East Council Balance Sheet; the Group Cash Flow Statement and the Cheshire East Cash Flow Statement, and the related notes to the Group Statement of Accounts and the Cheshire East Statement of Accounts; 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 2014/15.

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

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 2014/15, 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 also 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 and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Operating Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to the Group Statement of Accounts 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 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 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 2014/15 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 a 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 in October 2014.

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 2014, 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 2015.

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 2014, 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 2015.

Delay in certification of completion of the audit

(in the event that these elements are not concluded at the time the opinion is issued)

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.; and
- we have completed our consideration of matters brought to our attention.

We are satisfied that these matters do not have a material effect on the financial statements or a significant impact on our value for money conclusion

Jon Roberts

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

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