



Audit Completion Report Draft to Audit & Governance Committee

Cheshire East Council
Year ending 31 March 2020

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Our reports are prepared in the context of the 'Statement of responsibilities of auditors and audited bodies' and the 'Appointing Person Terms of Appointment' issued by Public Sector Audit Appointments Limited.

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2 November 2020

Dear Members

Audit Completion Report – Year ended 31 March 2020

We are pleased to present our Audit Completion Report for the year ended 31 March 2020. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented to the Audit & Governance Committee on 5 December 2019. Since we issued our Audit Strategy Memorandum the UK has been subject to the challenges and restrictions of COVID-19. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

One implication of COVID-19 for the Council was that the dates for submission of the draft and audited financial statements were pushed back to 31 August and 30 November respectively. Despite the revised timetable we acknowledge the difficulties encountered by your team during accounts preparation and audit, and would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail then please do not hesitate to contact me on 07795 506776.

Yours faithfully

Mark Dalton
Mazars LLP

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1. EXECUTIVE SUMMARY

Purpose of this report and principal conclusions

The Audit Completion Report sets out the findings from our audit of Cheshire East Council ("the Council") for the year ended 31 March 2020, and forms the basis for discussion at the Audit & Governance Committee meeting on 11 November 2020.

The detailed scope of our work as your appointed auditor for 2018/19 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards of Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

Sections 2 and 5 of this report outline the detailed findings from our work on the financial statements and our conclusion on the Council's arrangements to achieve economy, efficiency and effectiveness in its use of resources. Section 2 also includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of control;
- Valuation of Property, Plant & Equipment;
- Valuation of Defined Benefit Pension Liability;
- Group Financial Statements consolidation process; and
- Calculation of the Minimum Revenue Provision.

Status of our work

As we outline on the following page, our work is substantially complete. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements

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

Value for money conclusion

We anticipate concluding that the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. Our draft auditor's report, including proposed conclusion, is provided in Appendix B.

Whole of Government Accounts (WGA)

The timetable for the Council's WGA submission has not yet been published by MHCLG, and NAO have not yet issued auditors with their group instructions. We will complete the required work to the MHCLG timetable as soon as possible once these details have been clarified.

Wider powers

The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Council and to consider any objection made to the accounts. We have not received any questions of objections relating to 2019/20.

1. EXECUTIVE SUMMARY

Status of our audit work

We have substantially completed our work on the financial statements and value for money conclusion for the year ended 31 March 2020. At the time of preparing this report the following matters remain outstanding:

Audit area	Status	Description of outstanding matters
Pension Liability	●	Receipt of requested assurances from the auditor of Cheshire Pension Fund. Completion of final elements of audit work on the Pension Fund liability following receipt of these assurances.
Property, Plant & Equipment	●	Completion of the audit work relating to the valuation of the Council's Property, Plant & Equipment and Investment Property by the Council's external valuer.
Cash & cash equivalents	●	Receipt of confirmation letter from the bank for the balances relating to one school.
Going concern evaluation	●	Receipt of the Council's assessment of going concern. Completion of the final elements of audit work on receipt of this assessment.
Events after the balance sheet date	●	Final consideration of events after the balance sheet date at the conclusion of the audit.
Review and closure procedures	●	Completion of audit closure procedures, including: <ul style="list-style-type: none"> • review of final Annual Governance Statement; • review of the final version of the financial statements; and • final manager and partner review.
Whole of Government Accounts	●	As highlighted on page 3, the NAO has not yet issued auditors with group instructions or confirmed the timetable for audit reporting. We will complete the required work to the agreed timetable as soon as possible once these details have been clarified.

Status

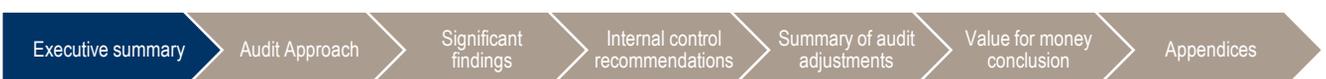
- Likely to result in material adjustment or significant change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Not considered likely to result in material adjustment or change to disclosures within the financial statements

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

Audit Adjustments and Internal Control Recommendations

Section 4 sets out the internal control recommendation that we have made.

Section 5 outlines the audit adjustments noted as part of our audit as at the time of issuing this report. If any additional adjustments are noted on completion of the outstanding work, these will be reported to the Audit & Governance Committee in a follow-up letter.



2. AUDIT APPROACH

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum (ASM) in December 2019. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Overview of our group audit approach

The Council's Group financial statements for 2019/20 includes six wholly owned subsidiary companies: ANSA Environmental Services Ltd; Civicance Ltd; Engine of the North Ltd; Orbitas Bereavement Services Ltd; The Skills & Growth Company Ltd; and Transport Service Solutions Ltd, although three of these by end of the financial year were brought back in house by the Council.

Our Audit Strategy Memorandum provided details of our intended group audit approach. We confirm that there have been no changes to our approach outlined in that Memorandum, and in particular we have not considered any subsidiary to be a significant component and consequently we have not obtained specific assurance from the component auditors of the six companies.

Materiality

We set materiality at the planning stage of the audit at £14m for the Group financial statements and £13.8m for the Council financial statements, using a benchmark of around 2% of gross expenditure at the Surplus/Deficit at Net Cost of Services level.

Our final assessment of materiality, based on the final 2019/20 financial statements and qualitative factors is unchanged from that at the planning stage for both the Group and Council financial statements. Our final materiality levels and trivial thresholds are set out in the table below. We set our trivial threshold (the level under which individual errors are not communicated to the Audit & Governance Committee, at £420k for the Group and £414k for the Council based on 3% of overall materiality.

Materiality element	Group materiality	Council single-entity materiality
Overall materiality	£14,000,000	£13,800,000
Performance materiality	£10,500,000	£10,350,000
Trivial threshold for reporting to Audit & Governance Committee	£420,000	£414,000

We confirm that there were no qualitative factors which we considered when setting the level of materiality for the Group or the Council.

We have also calculated materiality for specific classes of transactions, balances or disclosures where we determine that adjustments of a lesser amount than materiality for the financial statements as a whole, could reasonably be expected to influence the decisions of users taken on the basis of the financial statements. We set specific materiality for the following items of account/disclosures:

Item of account/disclosure	Specific materiality
Officer remuneration bandings (Note 20)	£5,000 *
Related Party Transactions (Note 31)	£50,000

* Reflecting movement from one salary band to another

3. SIGNIFICANT FINDINGS

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 11 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the Council's financial statements that required special audit consideration. Although we report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks have been identified since we issued our Audit Strategy Memorandum. In addition we confirm that through obtaining a detailed understanding of the fees and charges income sources, we concluded we can rebut the presumed risk of revenue recognition for all areas of income. Our audit approach did however incorporate testing from payments and receipts around the year-end to provide assurance that there are no material unrecorded items of income and expenditure in the 2019/20 accounts.

Significant risk

Description of the risk

Management override of controls

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk by performing audit work in the following areas:

- accounting estimates impacting on amounts included in the financial statements;
- consideration of identified significant transactions outside the normal course of business; and
- journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

There are no matters arising from our work on the management override of controls.

3. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk

Property, plant and equipment valuation

Description of the risk

The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle.

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

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

The risk has increased in 2019/20 as a result of the uncertainty arising from COVID-19. The Royal Institution of Chartered Surveyors (RICS) has issued a Valuation Practice Alert (VPA), which provides guidance on the use of material uncertainty disclosures in valuation reports, and the Council's external valuer included such a disclosure in their report.

How we addressed this risk

In relation to the assets which had been revalued during 2019/20 we assessed the Council's valuer's qualifications, objectivity and independence to carry out such valuations, and reviewed the valuation methodology used, including testing the underlying data and assumptions. We compared the valuation output with market intelligence provided by Gerald Eve, consulting valuers engaged by the National Audit Office, to obtain assurance that the valuations are in line with market expectations.

We reviewed the approach that the Council adopted to address the risk that assets not subject to valuation in 2019/20 are materially misstated and we considered the robustness of that approach in light of the valuation information reported by the Council's valuers.

In addition, we considered the movement in market indices between revaluation dates and the year end in order to determine whether these indicate that fair values have moved materially over that time.

We also considered the potential impact of the Covid-19 pandemic on the Council's asset valuations and the adequacy of the disclosures in the financial statements, specifically those relating to the material uncertainty disclosed by your valuer to their valuations.

Audit conclusion

As set out on page 4, our work on the valuation of Property, Plant and Equipment is still to be completed.

The Council's valuer has followed RICS guidance and their valuation report discloses that, due the impact of COVID-19 on the property market, there is "material uncertainty" over the valuation of land & buildings and investment properties at 31 March 2020. The Council have included appropriate disclosures of this in the Statement of Accounts. We intend to include reference to this disclosure as an 'emphasis of matter' in our audit report as highlighted by our draft report at Appendix B. The inclusion of an 'emphasis of matter' paragraph is not a modification or qualification of our audit opinion.

Our other work on the Property, Plant & Equipment balance and disclosures has identified some non-material disclosure adjustments as highlighted in section 5 of this report. The Council has amended the financial statements for all these adjustments.

3. SIGNIFICANT FINDINGS (CONTINUED)

Significant risk
Defined benefit liability valuation

Description of the risk

The net pension liability represents a material element of the Council's balance sheet. The Council is an admitted body of Cheshire Pension Fund, which had its last triennial valuation completed as at 31 March 2019. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.

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

There is a risk that the assumptions and methodology used in valuing the Council's pension obligation are not reasonable or appropriate to the Council's circumstances. This could have a material impact to the net pension liability in 2019/20.

How we addressed this risk

As part of our work we reviewed the controls that the Council has in place over the information sent to the Scheme Actuary, including the Council's process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of the scheme Actuary, Hymans Robertson.

We reviewed the appropriateness of the methodology applied in the valuation of the liability by Hymans Robertson, and the key assumptions included within the valuation, comparing them to expected ranges, utilising the information provided by PwC, consulting actuary engaged by the National Audit Office. We reviewed the methodology applied. We considered the Council's response to the key risks that emerged through the audit relating to legal cases that impact on the Local Government Pension Scheme.

In addition our work focused on two issues that emerged through 2020. In July 2019, MHCLG consulted on the proposed remedy for the 'McCloud' case, an estimate of which was included in the Council's liability in 2018/19 and 2019/20. The proposed remedy indicates that the actuarial estimate of the liability for 2018/19 and 2019/20 was likely to be overstating the pension fund liability but not materially.

A second emerging issue this year is the 'Goodwin' case which also relates to groups of pension fund members suffering discrimination. Although the impact of 'Goodwin' is still being clarified the Council's actuary have provided evidence to support their assessment of the impact on the Council's liability. They conclude that the impact is not likely to be material.

In both issues, we engaged with the Council's actuary and reviewed the evidence provided by the pension fund and the Council's actuary in order to conclude on the material accuracy of the liability.

Audit conclusion

As set out on page 4, our work on the valuation of the Council's Pension Liability is still to be completed, but we have concluded that the impact of the 'McCloud' and 'Goodwin' cases on the Council's pension fund liability is not likely to be material and there are no issues to report from that element of our work.

Our other work on the Pension disclosures has identified some non-material disclosure adjustments. The Council has amended the financial statements for all the adjustments.

3. SIGNIFICANT FINDINGS (CONTINUED)

**Management judgement
Group Financial Statements consolidation process**

Description of the management judgement

The Council has made judgements around which of its group entities it consolidates into its Group Financial Statements, and how it consolidates the transactions and balances into the Group.

How we addressed this area of management judgement

We completed our audit of the group entities as set out on page 5. We complemented this work with our work over the Council's Group consolidation process. In particular we reviewed the Council's judgements relating to the entities that are consolidated into the Group financial statements, and we reviewed and tested the method of consolidation of those group entities into the Group financial statements.

Audit conclusion

Other than some non-material adjustments to the Group financial statements there are no significant matters arising from our audit of the Group Financial Statements consolidation process.

**Management judgement
Private Finance Initiative schemes**

Description of the management judgement

The Council has no new PFI schemes in 2019/20, and continues to make judgements that result in the Council accounting for the PFI assets and liabilities in its financial statements.

How our audit addressed this area of management judgement

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

Audit conclusion

There are no matters arising from our work on the Council's Private Finance Initiative schemes.

3. SIGNIFICANT FINDINGS (CONTINUED)

Management judgement
Accounting for Schools

Description of the management judgement

The Council continues to account for schools in its single entity financial statements. In addition the Council discloses that it includes in its financial statements the following categories of schools: Community, Voluntary Aided, Voluntary Controlled and Foundation.

How we addressed this area of management judgement

We considered the continued accounting treatment of the Council's schools and its compliance with the requirements of the CIPFA Code of Practice on Local Authority Accounting and other sector guidance.

Audit conclusion

There are no matters arising from our work on the Council's accounting for schools

Qualitative aspects of the Council's accounting practices

The Council is required to prepare its financial statements on a going concern basis by the Code of Practice on Local Authority Accounting (the Code). Our final audit procedures will consider the appropriateness of the use of the going concern assumption, and we have reviewed the Council's accounting policies and disclosures and concluded they comply with the requirements of the Code, appropriately tailored to the Council's circumstances.

Draft accounts were received from the Council on 30 July 2020, well in advance of the revised statutory deadline and were of a good quality. Good quality supporting working papers have been made available in a timely manner and these have assisted our audit progress. Our audit relationship with the Council has continued to be excellent, and despite the very significant challenges on ourselves and the Council's finance officers from the impact of the Covid-19 pandemic, the audit progress has been extremely positive. In particular Council finance staff have been very helpful in promptly answering our detailed audit queries.

Significant matters discussed with management

During our audit we discussed a number of matters with management. The most significant of those matters are reported below:

- The impact of Covid-19 on the valuation of land & buildings and investment properties and in particular the Council's disclosure of the material uncertainty relating to its assets and its share of those within the Cheshire Pension Fund.
- The Council's actuary, Hymans Robertson's consideration of the impact of past legal cases on the Council's pension liability, details of which are set out earlier in this section.
- The Council's application of accounting standard IFRS9 on its treatment of financial assets disposed of in the year.

Our resolution of these considerations have led to some disclosure amendments to the draft financial statements as outlined in section 5.

Executive summary

Audit approach

Significant findings

Internal control recommendations

Summary of audit adjustments

Value for money conclusion

Appendices

3. SIGNIFICANT FINDINGS (CONTINUED)

Significant matters discussed with management (continued)

The impact of the Covid-19 pandemic has had a significant impact on the Council, not only in relation to normal operating practices and service delivery, but also in terms of additional requirements for the distribution of business grants and rate relief. Whilst the financial impact on the Council is much more significant in the 2020/21 and future financial years, we have specifically considered the potential impact on the significant risks in relation to property valuations and the pension liability valuation, as outlined below and earlier in this report.

In addition our testing of income and expenditure around the year end, in order to conclude that they are recognised in the correct financial year has also considered the timing of the additional income the Council received from central government between March and July including the business support funds which flowed through the Council. We have not identified any material issues in relation to this testing, subject to the completion of the work outlined on page 4.

The Council's response to relevant legal cases which impact on the valuation of certain pension liabilities included as set out earlier in this section:

- The proposed remedy for the 'McCloud' case which is likely to have led to an overstatement of the original estimate of the Council's pension fund liability as at 31 March 2020; and
- The 'Goodwin' case, which emerged in 2019/20.

Based on the information provided by the Council's actuary, management do not expect the impact of either of these cases to be material and have not amended the draft financial statements for the impact of these issues.

In addition, as a result of independent quality reviews of audit suppliers' work, in particular by the Financial Reporting Council, we have increased the level of work we carry out on defined benefit pension schemes and the valuation of property, plant and equipment. This and other issues emerging during the year have had an impact on the level of work and time required to complete the audit and we will discuss any fee variation request with management on completion of our audit work and update the Committee. All fee variation requests are subject to approval from PSAA.

Significant difficulties during the audit

Other than the matters reported above, we did not encounter any significant difficulties and we have had the full co-operation of management throughout our audit, building on the excellent relationships we established last year in our first year of our audit.

Wider responsibilities

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

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

We have not exercised any of these powers as part of our 2019/20 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. We have not received any questions or objections during our audit.



4. INTERNAL CONTROL RECOMMENDATIONS

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

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

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

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

4. INTERNAL CONTROL RECOMMENDATIONS (CONTINUED)

Other recommendations on internal control – Level 3

Issue 1

Description of deficiency

From our testing of IT controls we identified that there are no regular reviews of IT user access of active accounts.

Potential effects

Not reviewing user accounts on a regular basis could expose the Council to the risk that the user account is no longer valid (i.e. that the user account should not be active), or that the access rights granted to the user account are no longer aligned with the user's current role and functions.

Recommendation

The Council should establish a regular review of the IT user access of active accounts.

Management response

The Council will establish a periodic review of the user access of active accounts, in addition to the targeted reviews which already take place, to ensure compliance with the ICT Access Policy.

Follow up of previous internal control points

Our audit work in 2019/20 confirmed that the Council had implemented all the internal control recommendations from 2018/19.



5. SUMMARY OF AUDIT ADJUSTMENTS

We set out below the items identified for adjustment during the course of the audit, above the level of trivial threshold of £420k for the Group financial statements and £414k for the Council financial statements.

On this page we report the adjustments that were identified during the course of our audit which management has assessed as not being material either individually or in aggregate to the financial statements and does not intend to adjust.

On the following page we report the audit adjustments for which the draft financial statements have been adjusted by management during the course of the audit.

Unadjusted audit misstatements 2019/20

	Comprehensive Income and Expenditure Statement		Balance Sheet	
	Dr (£'000)	Cr (£'000)	Dr (£'000)	Cr (£'000)
1 Dr: Short Term Creditors Cr: Gross expenditure		623	623	

Our testing identified two items for which the Council had included system-generated accruals but which were not supported by the detailed supporting evidence. The value of the errors totalled only £34,600 but in applying our audit testing methodology we have extrapolated the errors over the remaining untested population to estimate the potential error. This concluded that the estimated error was £623,000 as above. As this is well below materiality and is an estimated not an actual error, the Council have not adjusted the financial statements.

2 Dr: Other Operating Expenditure Cr: Other Comprehensive Expenditure	1,332	1,332		
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When the Council sold its shares in the Manchester Science Partnership during the year, it included £1.3m relating to the previously recognised gain on the fair value of this shareholding, in Other Operating Expenditure. The complex technical accounting requirements set out in CIPFA's guidance on applying IFRS9 indicate that this treatment is not correct and that the previously recognised gain should not be recycled through the Comprehensive Income & Expenditure Statement. This is a technical accounting adjustment which does not impact on the net assets of the Council. As this is well below materiality the Council have not adjusted the financial statements.

3 Dr: Other Operating Expenditure Cr: Financing & Investment Expenditure	6,861	6,861		
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When a school converts to an academy school and leaves the Council's control the Council accounts for the disposal of the school land and buildings by recognising the loss on disposal in its Comprehensive Income & Expenditure Statement. The loss has been categorised as Financing and Investment Expenditure but should have been categorised as Other Operating Expenditure. This does not impact on the results for the year or the net assets of the Council. As this is well below materiality the Council have not adjusted the financial statements.

5. SUMMARY OF AUDIT ADJUSTMENTS (CONTINUED)

Unadjusted audit misstatements 2019/20

In addition to the misstatements identified on the previous page, there are two cases impacting on the valuation of the Defined Benefit Pension Liability where subsequent to the draft accounts being produced more accurate information became available which means that the Council's liability is not based on the most up to date information. The Council have, in consultation with their actuary, concluded that the liability is not materially inaccurate, and they have consequently not obtained an updated actuarial report to provide an updated liability estimate using the most up to date information. We have highlighted the background to the 'McCloud' case proposed remedy and the 'Goodwin' case on page 8, and we have concluded that the estimate of the Pension Liability is not materially misstated.

Adjusted audit misstatements 2019/20

From our work completed to date the only misstatements identified relate to narrative and disclosure errors and there is no impact on the reported financial results in the main financial statements. The key disclosure adjustments made by management are set out below.

Disclosure adjustments

The Council has made a number of amendments to the disclosures in the financial statements.

Among these adjustments were contextual or presentational adjustments made to:

- The reclassification of Property, Plant & Equipment in Note 8;
- The disclosures relating to Investment Properties in Note 9;
- The Senior Officer salaries in Note 22 to separately disclose bonuses paid;
- The termination benefits in Note 23 to include all relevant termination benefits;
- The disclosures in some tables in the Pension Liability in Note 28;
- The disclosures relating to the Council's operating leases in Note 30; and
- The disclosure of related party transactions in Note 32.

6. VALUE FOR MONEY CONCLUSION

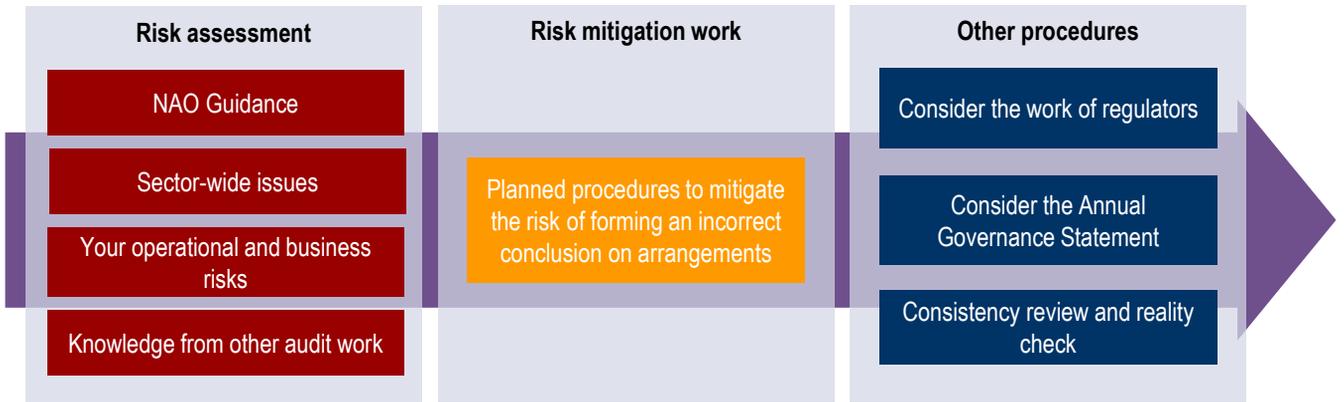
Our audit approach

We are required to form a conclusion as to whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The NAO issues guidance to auditors that underpins the work we are required to carry out in order to form our conclusion, and sets out the criterion and sub-criteria that we are required to consider.

The overall criterion is that, 'in all significant respects, the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.' To assist auditors in reaching a conclusion on this overall criterion, the following sub-criteria are set out by the NAO:

- informed decision making;
- sustainable resource deployment; and
- working with partners and other third parties.

A summary of the work we have undertaken is provided below:



Significant audit risks

The NAO's guidance requires us to carry out work to identify whether or not a risk to our conclusion exists. Risk, in the context of our value for money work, is the risk that we come to an incorrect conclusion rather than the risk of the arrangements in place at the Council being inadequate. In our Audit Strategy Memorandum, we reported that we had identified one significant audit risk relating to the Council's arrangements for delivering financial sustainability.

The work we carried out in relation to the significant risk is outlined overleaf.

Our overall value for money conclusion

Our draft auditor's report included in Appendix B states that we intend to issue an unqualified conclusion for the 2019/20 financial year. We have however included commentary overleaf relating to the increased pressure on the Council's arrangements as a result of the increased challenges on delivering the financial strategy over the medium term.



6. VALUE FOR MONEY CONCLUSION (CONTINUED)

Significant audit risks

Risk	Work undertaken and findings	Conclusion
Financial Sustainability	Work undertaken	
<p>The Council's medium term financial strategy for the period 2016/17 to 2019/20 set out the financial challenges it faces. The mid year reporting for 2019/20 indicated that the Council was projecting to overspend this year's budget by £7.5m, placing further pressure on service delivery and increasing the use of reserves to support the revenue expenditure.</p> <p>The continuing challenges the Council faces are not new and are not unique to Cheshire East Council. The challenges do, however, present a significant audit risk in respect of considering the arrangements that the Council has in place to deliver financially sustainability over the medium term.</p>	<p>We reviewed the arrangements the Council had in place throughout 2019/20 for ensuring financial resilience. Specifically we reviewed whether the medium term financial plan took into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We also reviewed the arrangements in place to monitor progress delivering the budget and related savings plans. In addition, although the financial impact of Covid-19 on the Council was not significant in 2019/20 we have considered the Council's approach to understanding and reporting the impact around the end of the financial year.</p> <p>Findings</p> <p>Based on the work carried out we have established that:</p> <ul style="list-style-type: none"> • The Council has a robust budget setting process in place for 2019/20 and 2020/21. • The monitoring through the year is timely and detailed and enables the Council to manage its financial position through the year accurately. • There are overspends in some areas in 2019/20, but overall the Council has maintained good control of its budgets. • Overall the budget overspend is not significant, and the use of earmarked reserves in 2019/20 is not significantly more than budgeted. • The level of overall earmarked reserves provides some flexibility for the Council to deliver financial sustainability in the medium term. 	<p>We conclude that for 2019/20 the Council has made proper arrangements to deliver financial sustainability in the medium term.</p> <p>However, the size and scale of the financial challenges in the medium term have been significantly impacted by Covid-19 and this places significant extra pressure on the Council's arrangements in 2020/21 and future years.</p> <p>CIPFA's Financial Management Code published in 2019 sets out for the first time, the standards of financial management for local authorities. These standards cover a range of areas including the responsibilities for financial management and the governance arrangements. The Code is designed to ensure that Councils achieve the highest standards of financial management, integrating this with strategic development and risk management.</p> <p>The significant challenges to deliver financial sustainability over the medium term raises the importance of having in place effective financial management arrangements which are delivered through a partnership of the section 151 officer, the leadership team, cabinet and the Council.</p>

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

To be provided to us on client headed note paper

[Client address]

[Date]

Dear [Name]

Cheshire East Council - audit for year ended 31 March 2020

This representation letter is provided in connection with your audit of the financial statements of Cheshire East Council ('the Council') and its Group for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) and applicable law.

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

My responsibility for the financial statements and accounting information

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

My responsibility to provide and disclose relevant information

I have provided you with:

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

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

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

Accounting records

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

Accounting policies

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

Accounting estimates, including those measured at fair value

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

[continued]

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DRAFT MANAGEMENT REPRESENTATION LETTER

Contingencies

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

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

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

There are no undisclosed contingent gains which should be disclosed.

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

Laws and regulations

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

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

Fraud and error

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

I have disclosed to you:

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

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

Related party transactions

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

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

Future commitments

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

APPENDIX A

DRAFT MANAGEMENT REPRESENTATION LETTER

Subsequent events

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

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

Going concern

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

Unadjusted misstatements

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

Yours faithfully

Alex Thompson
Director of Finance & Customer Services

APPENDIX B

DRAFT AUDITOR'S REPORT

Independent auditor's report to the members of Cheshire East Council

Report on the financial statements

Opinion

We have audited the financial statements of Cheshire East Council ('the Council') and its subsidiaries ('the Group') for the year ended 31 March 2020, which comprise the Council and Group Comprehensive Income and Expenditure Statements, the Council and Group Movement in Reserves Statements, the Council and Group Balance Sheets, the Council and Group Cash Flow Statements, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Council and the Group as at 31st March 2020 and of the Council's and the Group's expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of land and buildings

We draw attention to note 37 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Council's land and buildings and the valuation of the Council's share of Cheshire Pension Fund's property assets. As disclosed in note 37 of the financial statements, the Council's and the Pension Fund's valuers included a 'material valuation uncertainty' declaration within their reports as a result of the Covid-19 pandemic creating a shortage of relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance & Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance & Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance & Customer Services is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Director of Finance & Customer Services for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts the Director of Finance & Customer Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view. The Director of Finance & Customer Services is also responsible for such internal control as the Director of Finance & Customer Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Director of Finance & Customer Services is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Director of Finance & Customer Services is responsible for assessing each year whether or not it is appropriate for the Council to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

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

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

We have nothing to report in these respects.

APPENDIX B

DRAFT AUDITOR'S REPORT

Conclusion on Cheshire East Council's arrangements for securing economy, efficiency and effectiveness in the use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, Cheshire East Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Basis for conclusion

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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 Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Responsibilities of the Council

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Use of the audit report

This report is made solely to the members of Cheshire East Council, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

APPENDIX B

DRAFT AUDITOR'S REPORT

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

In addition, we cannot formally conclude the audit and issue an audit certificate until the Council's previous auditors have completed their consideration of matters brought to their attention in 2015/16. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

Mark Dalton
For and on behalf of Mazars LLP
One St Peter's Square
Manchester
M2 3DE
Insert Date

APPENDIX C INDEPENDENCE

Auditor independence

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

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent. In particular there are no independence threats from our non-audit work disclosed below.

We also confirm that we have received confirmation from our external experts regarding their independence.



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