

# Annual Governance Report

Cheshire County Council

Audit 2008/09

September 2009

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## Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
  - any third party.
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# Key messages

**This report summarises the findings from the 2008/09 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess how well you use and manage your resources to deliver value for money and better and sustainable outcomes for local people.**

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Financial Statements	Results	Page
Unqualified audit opinion	Yes	5
Financial statements free from material error	Yes	5
Adequate internal control environment	Yes	5
<b>Use of resources</b>		
Arrangements to secure value for money	Yes	10

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## Financial statements

- 1 My audit of the former Cheshire County Council is substantially complete. Once the small number of issues outstanding has been resolved and I have completed any outstanding work, I expect to issue an unqualified opinion on the financial statements. A copy of my draft auditor's report is included at Appendix 1.
- 2 My audit of the Cheshire Pension Fund will be reported in a separate Annual Governance Report which will be issued shortly. There are some significant issues outstanding in relation to the financial statements relating to the Pension Fund. If necessary I will include an amended version of my auditor's report for Cheshire County Council with the Pension Fund Annual Governance report.
- 3 The financial statements submitted for audit contained no material errors. We report some amendments made to the statements following our audit, but none of these are considered to be material. Details of these are listed at appendix 2.
- 4 The arrangements for financial reporting in 2008/09 have remained good. This has been a significant achievement given the changes and uncertainties linked to local government reorganisation in Cheshire. The financial statements were well prepared and well supported by working papers. Some progress has been made in taking action in response to recommendations in last year's report. For example, the payroll bank account was reconciled at 31 March 2009. However, there are ongoing problems with reconciling the County Fund bank account. Changes have been made to business processes to ensure that the equivalent account in the two new unitary authorities is fully reconciled on monthly basis.

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### Use of resources

- 5 My work in relation to assessing the County Council's arrangements for securing economy, efficiency and effectiveness in its use of resources is complete. I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources.

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### Audit fees

- 6 In our audit plan, the fee for the audit was based on our best estimate at the time and was agreed at £219,152. We reviewed the estimate again in March 2009 and concluded that the original fee planning assumptions were still valid at that stage. Some additional testing relating to local government reorganisation has been necessary and following the conclusion of the audit I will discuss the fee implications of this with the Director of Resources alongside my ongoing audit of Cheshire West and Chester for 2009/10.

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### Next steps

- 7 This report identifies the key messages that you should consider before I issue my financial statements opinion, value for money conclusion and audit closure certificate. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you. I therefore ask the Audit and Governance Committee to:
- consider the matters raised in this report before approving the financial statements (pages 5 to 9);
  - take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
  - take note of the VFM Conclusion (page 10);
  - approve the letter of representation before I issue my opinion and conclusion (Appendix 3); and
  - agree the recommendations contained in the report.
- 8 The recommendations included in this report and in the reports for other demised bodies in the west and east of the former County will be consolidated in respective action plans for consideration by Cheshire West and Chester Council and Cheshire East Council in the future.

# Financial statements

The financial statements and annual governance statement are important means by which councils account for the stewardship of public funds. As Cheshire West and Chester Council members you have final responsibility for the financial statements relating to the former Cheshire County Council. It is important that you consider my findings before the financial statements are authorised for issue.

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## Opinion on the financial statements

- 9 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the former County council's financial statements. Appendix 1 contains a copy of my draft audit report. The outstanding matters relate to:
- residual testing of accounting entries and subsequent management review; and
  - review of the amended financial statements
- 10 I am also required to issue an opinion on the Pension Fund accounts for the first time this year. There are some significant issues outstanding in relation to the Pension Fund accounts. For this reason it has been necessary to delay the issue of the Pension Fund Annual Governance report. I will issue this report as soon as possible and inform members of any impact the resolution of the issues might have on my auditor's report.

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## Amendments to the financial statements

- 11 I have not identified any material errors in the financial statements and there is just one significant amendment that has been made to the financial statements during the audit. Transition costs incurred by the Council in 2008/09 amounted to £21.6m. These were classified in the Income and Expenditure Account as service costs (£1.4m), exceptional items (£13.4m) and as non distributed costs (£6.8m). The accounts have been amended to show all the costs as exceptional items except for £1.4 m of costs which are still classified as service expenditure.
- 12 Several other small accounting errors identified during the audit have been amended. Details of the amendments are shown in Appendix 2 together with a note of the more significant amendments to the disclosures to the accounts.

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## Internal control

- 13 I have reviewed the Council's system of internal control and found no material weaknesses. My audit work included testing of controls in the main financial systems. Where appropriate I placed reliance on these controls in order to reduce the amount of detailed testing required during the final audit visit.

- 14** Officers made progress during 2008/09 in resolving the problems which were causing reconciliation differences between bank account and the ledger. For the first time in several years the payroll and payments accounts were reconciled to the ledger at 31 March 2009. However, a reconciliation difference of £0.33m was reported on the general fund bank account reconciliation at the year end. Officers have reported that the difference is primarily due to timing issues with the running of reports at year end, with £0.07m relating to problems in clearing a suspense account which contains receipts requiring adjustment (reversed receipts). The income team has adopted revised business processes for reconciling reversed receipts from 1 April 2009. The council fund bank accounts for the two new authorities have been reconciled in the first few months of 2009/10. Officers are continuing to monitor and reconcile the county fund account through to its closure, when any remaining unreconciled difference will be written off.
- 15** The County Council had investments of £8.5m in Heritable Bank which was placed into administration on 6 October 2008. The Council's investment was immediately frozen pending determination of assets and liabilities by the administrator. In response to this significant event and the wider crisis in the financial markets, the Council approved changes to the list of institutions which the Council could lend to. Further changes were subsequently made to remove other banks from the list, whose credit ratings were felt to be falling. The Council also used cash balances to temporarily fund capital expenditure, thus reducing the exposure to investment risks. Whilst we have not identified any significant control weaknesses in the former County Council's investment arrangements, members should reflect on the County's experiences and learning, to ensure that the arrangements in the new councils provide for:
- scrutiny of policies and procedures by a specialist committee who have been provided with specialist training;
  - regular reports to members on the full range of risks being taken; and
  - use of the fullest range of information available before deciding where to deposit funds.
- 16** We will be reviewing the treasury management arrangements for the two new councils as part of our 2009/10 audit.

<b>Recommendations</b>
<b>R1</b> Monitor the arrangements for reporting on bank reconciliations.
<b>R2</b> Review arrangements for member engagement with and scrutiny of treasury management processes.

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### Letter of representation

- 17** Before I issue my opinion, auditing standards require me to obtain appropriate written representations from you and management about your financial statements and governance arrangements. Appendix 3 contains the draft letter of representation I seek to obtain from you.

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### Key areas of judgement and audit risk

- 18** In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit. My findings are set out in Table 1.

**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
The key officers needed to prepare the financial statements and deal with the audit may not be available leading to poor quality and or late financial statements and delays in completing the audit.	Key officer availability has not been an issue. Officers have been effective in preparing the financial statements and in responding to audit questions.
Incomplete or inaccurate disclosure of local government reorganisation transition costs.	The Council has accounted accurately for the costs it incurred in preparing for local government re-organisation. Some classification amendments have been made to the financial statements to show the costs more clearly.
Local government pressures leading to financial misreporting	Through our mandatory and substantive testing of revenue and capital income and expenditure and written assurances received from the Council, we have concluded that no material misreporting has occurred due to pressures associated with the demise of the former County Council.
Incomplete reconciliation between the cash figures in the ledger and in bank accounts	The problems with the Salaries bank account were resolved in September 2008 by the introduction of a payroll control account and a "new" bank account in the general ledger. At 31 March 2009 there was a difference of £0.3m between the county fund bank account and general ledger. We have tested the bank reconciliations and sought explanations for the ongoing reconciliation difference. Subject to receiving a specific representation from management, in the letter of Representation, we are satisfied that the cash balance appearing in the financial statement is not materially mis-stated.
Group relationships with Connexions not correctly disclosed in the financial statements as determined not material by the Council.	Although there is a group relationship between the Council and Connexions, we are satisfied that this is not material and thus there is no requirement for the Council to produce group accounts
Incorrect treatment in the financial statements of the potential loss of investments of £8.5m with the heritable Bank.	The Council has made an impairment charge of £2.7m in its 2008/09 in accordance with guidance provided by CIPFA including an update in September 2009.

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### Accounting practice and financial reporting

- 19** There are several significant matters relating to the qualitative aspects of your financial reporting to which I need to bring to your attention. The matters are listed below and cover:
- estimating for year end payroll expenses;
  - prior period adjustments;
  - pooling of surplus council and pension fund cash balances; and
  - guarantees given to Connexions.
- 20** The Council changed the method for estimating the amount which should be included in the financial statements for payroll expenses incurred at the year end. This change was adopted due to difficulties experienced in determining these costs, for example overtime costs, from the two new payroll systems in the new year. The impact is that payroll costs are £3.3m less in 2008/09 than they would normally have been. We have considered this change in treatment with officers and concluded that it was appropriate in the circumstances created by reorganisation. The Council have reported the change and its financial impact in a note to the Income and Expenditure Account.
- 21** The council made prior period adjustments to the 2007/08 comparatives reported in the financial statements. This related to two items:
- the change in valuation of pension fund assets amounting to £3.5m; and
  - an error in the classification of a land purchase of £0.7m
- 22** UK GAAP (FRS3) states that prior period adjustments are only necessary:
- when there is a material change in accounting policy; or
  - when the previous year's accounts contained a fundamental error.
- 23** The Council has amended the accounts to remove the adjustment relating to the land purchase but officers consider the change in valuation of pension fund assets to be sufficiently fundamental to maintain disclosure in the accounts. The Council should carefully consider the need for making prior period adjustments and only account for these if it is absolutely necessary to comply with accounting standards.



- 24** In common with many other administering bodies, the County Council pools surplus pension fund cash with its own surplus cash as part of its strategy for managing cash balances. This involves investment of the combined surpluses. The arrangements are set out in a treasury management agreement dated December 2005. The arrangement supports the Pension Fund in terms of cash-flow, liquidity and risk management, for example, it did not incur an impairment charge as a consequence of the former County Council investing in Heritable Bank. To reflect the risks involved in the arrangement, the Pension Fund is reimbursed at a nationally identifiable average bank interest rate. We understand that in most years the rate paid to the Pension Fund has been similar to that achieved by the former County Council. Officers have informed us that due to changes in the banking industry and the subsequent fall in interest rates, the interest paid to the Pension Fund in 2008/09 is estimated to be around £40,300 less than that achieved from the average return on investments made by the Council. The Council have indicated that they will reimburse this sum to the Pension Fund. Whilst I have concluded that these issues are not material in relation to my opinion on the financial statements, action is required to ensure the robustness of the arrangement going forward. For example:
- the governance arrangements relating to pooling of funds should be reviewed; and
  - the treasury management agreement which sets out the conditions for pooling cash balances is dated December 2005 and is in need of review to reflect recent and current organisational and treasury management changes.
- 25** As part of the agreement to outsource the youth service to Connexions in May 2007 the Council agreed to act as guarantor for any pension liability of the company. The guarantee is recognised in the accounts as a contingent liability. The Council agreed to strengthen the contingent liability note to clarify the nature of the liability and the significant uncertainties relating to the likely value of it. It has also come to our attention that there is no formal agreement between the bodies which are affected by the guarantee. The two new councils should give priority to preparing an agreement supporting any ongoing guarantee to Connexions.

### Recommendations

- |           |  |
|-----------|--|
| <b>R3</b> | Review the arrangements for the investment of surplus administering body and pension funds and formalise this in an updated agreement with the Pension Fund. |
| <b>R4</b> | Review the governance arrangements in relation to the pooling of surplus Council and Pension Fund.   |
| <b>R5</b> | The two new councils should prepare an agreement to support the guarantee given to Connexions in relation to the pension liability.                          |

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# Use of resources

**I am required to conclude whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.**

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## Value for money conclusion

- 26** I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. The Audit Commission has produced specific guidance for the assessment of Councils affected by LGR. The assessment uses the same 12 criteria as last year, but the work required has been adapted to reflect the particular circumstances of these Councils. The assessment considered whether Councils maintained adequate governance arrangements and service performance in their final year and also whether they worked effectively with their successor Council to ensure a smooth handover of responsibilities.
- 27** I reported my provisional assessment to Cheshire County Council's Governance Committee in March 2009. I concluded that I intended to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. I confirm that I have now completed my assessment and that my conclusion remains unchanged. A summary of my assessment against the Audit Commission's twelve criteria is included at Appendix 4. Appendix 1 contains the wording of my draft report.
- 28** My detailed findings are included in the report that I presented to the County Council. I have provided a copy of that report to the Director of Resources - it is available for members to see if they wish. I highlighted the following key issues specific to the County Council and I draw it them to members' attention to assist Cheshire West and Chester Council in identifying the issues that it needs to address. These are:
- give priority to the completion and testing of business continuity plans;
  - ensure that shared service arrangements and systems are implemented as a matter of priority; and
  - ensure that value for money is obtained from the use of consultants.

# Appendix 1 – Independent auditor’s report to Members of Cheshire West and Chester Council in respect of the financial statements of the demised Cheshire County Council

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## Opinion on the Authority accounting statements

I have audited the accounting statements and related notes of Cheshire county Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement<sup>1</sup> and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Cheshire West and Chester Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## Respective responsibilities of the Director of Resources and auditor

The Director of Resources responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year.

## **Appendix 1 – Independent auditor’s report to Members of Cheshire West and Chester Council in respect of the financial statements of the demised Cheshire County Council**

I review whether the governance statement reflects compliance with ‘Delivering Good Governance in Local Government: A Framework’ published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority’s corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In my opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

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### **Opinion on the pension fund accounts<sup>1</sup>**

I have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Cheshire West and Chester Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

**Respective responsibilities of the Director of resources and auditor**

The Director of Resources responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

My responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund’s assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword published in the financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. My responsibilities do not extend to any other information.

**Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority’s circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

**Opinion**

In my opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund’s assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

## **Appendix 1 – Independent auditor’s report to Members of Cheshire West and Chester Council in respect of the financial statements of the demised Cheshire County Council**

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### **Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority’s Responsibilities**

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 regularly to review the adequacy and effectiveness of these arrangements.

#### **Auditor’s Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

#### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the relevant criteria specified by the Audit Commission for principal local authorities, published in December 2006, and the supporting guidance, I am satisfied that, in all significant respects, Cheshire County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

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### **Certificate**

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Judith Tench

Officer of the Audit Commission

The Heath Business and Technical Park

Runcorn

Cheshire

WA74QF

September 2009

# Appendix 2 – Adjusted amendments to the accounts

The following misstatements were identified during the course of my audit and the financial statements have been adjusted by management. I bring them to your attention to assist you in fulfilling your governance responsibilities.

**Table 2**

		Income and Expenditure Account		Balance Sheet	
Adjusted misstatements	Nature of Adjustment	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Income and expenditure account	Decrease in expenditure in relation to transition costs	232	232	232	232
Prior period adjustment	Reversal of prior period adjustment in relation to a land purchase	675	675	675	675
Income and expenditure account	Re classification of transition costs	6,786	6,786		

We identified a number of areas where disclosure notes needed to be improved and management has agreed to amend. The more significant of these is listed below;

- Strengthened disclosures relating to the credit risks of bank deposits and investments
- Recognition of local government re-organisation and the decision taken to sell County Hall as unadjusting post balance sheet events
- Additional explanation and notes to reflect the change in the way that payroll accruals have been estimated and included in the financial statements
- Bringing the disclosure of non operational assets in line with recommended accounting practice

# Appendix 3 – Draft letter of representation

To:  
Judith Tench  
District Auditor  
Audit Commission  
The Heath Business and Technical Park  
Runcorn  
WA7 4QF

Cheshire County Council - Audit for the year ended 31 March 2009

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other directors, officers of the former Cheshire County council and Cheshire west and Chester and Cheshire East councils, the following representations given to you in connection with your audit of Cheshire County council's financial statements for the year ended 31 March 2009. All representations cover the Council's accounts.

## Compliance with the statutory authorities

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the County Council and for making accurate representations to you.

## Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the County Council and subsequently by Cheshire West and Chester Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council and Committee meetings, have been made available to you.

## Going Concern

I am satisfied that it is appropriate to adopt the going concern basis in the preparation of the financial statements and that the financial statements include, such disclosures, if any, relating to going concern.



## Appendix 3 – Draft letter of representation

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error. There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees regulators or others, analysts,.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the County council. The County Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Fair Values

I confirm the reasonableness of the significant assumptions within the financial statements. For the financial asset and liabilities assumptions, I confirm:

- the appropriateness of the measurement methods;
- the basis used by management to overcome the presumption under the financial reporting framework;
- the completeness and appropriateness under the financial reporting framework; and
- subsequent events do not require adjustment to the fair value measurement.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;
- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### Bank reconciliations

As at 31 March 2009 there was an unreconciled variance on one of the County Council's bank accounts. We have experienced long-standing problems with this reconciliation but I do not believe that the issue has a material impact on the accounts. We have put considerable effort into investigating the reason for the variance and have recently gained a better understanding of the problem. As a result of this, we have implemented a minor change to the business process for reconciling the account. This appears to have been successful and the equivalent accounts in the two new Authorities now reconcile fully. We will continue to monitor closely all bank accounts to ensure that they reconcile and that any issues arising are dealt with promptly.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties. The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

### Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Cheshire West and Chester and Cheshire East Councils have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

### Appendix 3 – Draft letter of representation

Signed on behalf of Cheshire West and Chester Council

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee on 29 September 2009

Julie Gill  
Director of Resources  
September 2009

Councillor K Musgrave  
Chairman of Audit and Governance Committee  
September 2009

# Appendix 4 – Value for money conclusion

Value for money criteria	Met, yes or no
1. The body has put in place arrangements for setting, reviewing and implementing its strategic and operational objectives.	Yes
2. The body has put in place channels of communication with service users and other stakeholders including partners, and there are monitoring arrangements to ensure that key messages about services are taken into account.	Yes
3. The body has put in place arrangements for monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members.	Yes
4. The body has put in place arrangements to monitor the quality of its published performance information, and to report the results to members.	Yes
5. The body has put in place arrangements to maintain a sound system of internal control.	Yes
6. The body has put in place arrangements to manage its significant business risks.	Yes
7. The body has put in place arrangements to manage and improve value for money.	Yes
8. The body has put in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities.	Yes
9. The body has put in place arrangements to ensure that its spending matches its available resources.	Yes
10. The body has put in place arrangements for managing performance against budgets.	Yes
11. The body has put in place arrangements for the management of its asset base.	Yes
12. The body has put in place arrangements that are designed to promote and ensure probity and propriety in the conduct of its business.	Yes

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# The Audit Commission

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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