



Congleton Borough Council

Audit Findings Report

Year ended 31 March 2009

**Presented to those charged with governance
arrangements for demised bodies within
Cheshire East Council by Baker Tilly UK Audit LLP
30 September 2009**

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Status of our reports to the Council

Our reports are prepared in the context of the *Statement of Responsibilities of Auditors and Audited Bodies* issued by the Audit Commission. Reports are prepared by appointed auditors and addressed to members or officers. They are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any member or officer in their individual capacity, or to any third party.

1 Introduction and coverage

This report summarises our key findings in connection with the audit of the financial statements of Congleton Borough Council (CBC) in respect of the year ended 31st March 2009 and our Value for Money conclusion.

This report addresses the requirements of International Standards on Auditing (UK and Ireland) 260: Communication of Audit Matters to those Charged with Governance (ISA260). Cheshire East Council, as the successor Unitary Authority to CBC, has determined that for audit purposes those charged with governance are the members of the Governance & Constitution Committee.

The scope of our work has already been communicated to CBC via our overall Audit & Inspection Plan dated June 2008 and our more detailed financial statements plan dated 25 June 2009 presented to the Cheshire East's Governance and Constitution Committee. We have performed our audit in accordance with the plan, the Audit Commission's Code of Audit Practice and International Standards on Auditing applicable to UK accounting standards. Our responsibilities and those of the Council itself are described in more detail in Appendix A.

One of the purposes of this report is to provide an overview of the Council's results and activities for the year, highlighting any key audit and accounting issues which may have come to our attention during the audit. It also assists the Committee in its consideration of the financial statements and to share our recommendations for areas of improvement. It also covers any relevant future issues for the Committee's consideration.

We have not sought to provide a detailed commentary on the year's financial performance, as the Council received regular management accounts as part of its monthly procedures. Section 2 covers some high level points regarding the 2008/09 outturn.

Our report has some dependence on information which has been provided by, or is based upon discussions with management and staff. Other than to the extent which this is required for the purpose of the audit, this information has not been independently verified.

A summary of adjusted and unadjusted misstatements identified during the audits has been prepared and is included in Section 8.

We consider that the audit approach adopted will provide the Members with the required confidence that a thorough and robust audit has been carried out and can confirm that, at the date of this report, we anticipate no modifications from our pro-forma audit report.

Scope of the work

The audit plan which we agreed with the Council described the following work which we would do to meet our audit responsibilities:

Code responsibility	Work undertaken:
<p>We are required to audit the financial statements and to give an opinion as to whether:</p> <ul style="list-style-type: none"> • they present fairly the financial position of the Council and its income and expenditure for the year ended 31 March 2009; and • they have been prepared in accordance with relevant legislation and applicable accounting standards. 	<ul style="list-style-type: none"> • We assessed the adequacy of the Council's key financial systems that support the transactions and balances in the financial statements. We took into account the work of Internal Audit to ensure that duplication of effort was avoided. • We have performed detailed analytical audit procedures on all material elements of income and expenditure within the accounts. • We have tested selected transactions and balances to source documents. • The accounts have been reviewed to ensure compliance with the guidance set out in CIPFA's Statement of Recommended Practice (SORP) in relation to statutory requirements, accounting standards, accounting presentation and disclosure.
<p>We are required to review whether the Annual Governance Statement (AGS) has been presented in accordance with relevant requirements and we are required to report if the statement:</p> <ul style="list-style-type: none"> • does not meet these requirements • is misleading; and/or • is inconsistent with, or incomplete in the light of, other information of which we are aware. 	<ul style="list-style-type: none"> • We reviewed the arrangements that the Council had put in place and the evidence gathered to provide sufficient assurance for the Leader and the Chief Executive to authorise the AGS. • We reviewed disclosures made in the 2008/09 AGS to assess whether they are consistent with the results of work reported by Internal Audit and our knowledge of the Council. • We ensured that the AGS has been presented in accordance with relevant requirements. • We reviewed major committee minutes to identify any inconsistencies.

Code responsibility	Work undertaken:
<p>We are required to review whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources</p>	<ul style="list-style-type: none">• We undertook a detailed use of resources assessment (the 2008 assessment) during autumn 2008, which included a focus on Value for Money arrangements. Our Value for Money conclusion has been informed by this work.• We undertook a review of the Council's arrangements for value for money in the lead up to the demise of the authority using the Audit Commission 2008/09 Value for Money Code Criteria for demising authorities.

Details of our audit fees for the period are provided in section 9 of this document.

2 Qualitative aspects of earnings

Review of financial results

Net operating expenditure has seen a significant increase of £7.9m to £20.3m (2008: £12.4m) largely due to the following:

- Exceptional costs of £4.75m, relating to local government reorganisation redundancy and transition costs, and the impairment of fixed assets in the year.
- A loss on disposal of £1.6m relating to the transfer of Congleton town hall to Congleton Town Council and a profit of £0.6m relating to the sale of the trade waste business.

The increase in net operating expenditure of £7.9m is the main contributor to the movement from a deficit of £0.4m in 2008 to a deficit of £7.6m in 2009.

The balance sheet for 31 March 2009 is fairly consistent with the position as at 31 March 2008, with the exception of the defined benefit pension scheme liability and the related reserve.

This has increased by £9.4m to £18.1m (2008: £8.7m) due to large actuarial losses on the scheme assets in the year.

Preparation of accounts and working papers

The Council was well prepared for the commencement of the audit. The financial statements were approved before the 30 June 2009 deadline in accordance with the Council's timetable. Working papers providing the composition of balances and appropriate supporting evidence were prepared to a good standard by the Council and additional explanations were provided on a timely basis were required.

As in previous years, we held a number of meetings with finance staff in advance of the audit to communicate to them our expectations concerning validation of the draft accounts, and to highlight the new requirements to be addressed in the 2008/09 financial statements.

New financial reporting requirements

For the 2008/09 Financial Statements, the Statement of Recommended Practice (SORP) 2008 introduced a number of developments (a detailed listing was included in the June 2009 audit plan) which potentially impacted on the Council's reporting. The key areas are listed below, namely:

1. The deletion of the section of the SORP on deferred charges since the concept has become redundant now that deferred charges in accordance with GAAP can never be carried on the Balance Sheet. It has been replaced by a new section entitled *Revenue Expenditure Funded from Capital Under Statute*, which reflects the current approach to accounting for expenditure that is not capital expenditure in accordance with GAAP but which statute allows to be funded from capital resources;

2. A section has been added to the SORP on income that is defined by statute as capital receipt but does not arise from the disposal of a fixed asset. (para 3.10);
3. The Pensions SORP was revised to take account of the requirements of financial instruments reporting standards FRS 25 and 26. These changes have been incorporated into the 2008 SORP.

We discussed these issues with the Council's finance officers in advance of the audit to ensure that they incorporated these requirements within the draft financial statements; following completion of our final audit visit we are satisfied that the Council has dealt properly with the above changes and made appropriate disclosures.

Specific audit risks

On 1st April 2009 Congleton Borough Council demised and its operations and balances novated to its successor authority, Cheshire East Council. The financial statements as at 31 March 2009 are prepared on the basis that all assets, liabilities and reserve balances will transfer to the replacing Council at their book value.

Our audit work covered those activities that have had an impact during 2008/09, such as set up costs, redundancy costs and curtailments. We concluded that accounting treatment and disclosure is appropriate.

Proposed audit opinion

We have completed our audit of the Council's financial statements for the year ended 31 March 2009. We propose to issue an unqualified opinion on the financial statements following receipt of a letter of representation from management and signing of the financial statements, including the Annual Governance Statement.

Letter of representation

In order to obtain sufficient audit evidence for our audit opinion on the financial statements we obtain representations from management on aspects of the accounting records, accounts disclosures and other matters. The draft representation letter that we request management and those charged with governance to sign is shown in **Appendix B** to this report.

Expected modifications to the Auditor's report

There are no modifications to the audit report on the financial statements for the year ended 31 March 2009. The draft audit report on the financial statements is shown at **Appendix C**.

3 Audit and accounting issues identified at planning stage

Key area of audit focus	Our approach	Resolution
<p>Local Government Reorganisation (LGR)</p> <p>The financial statements are prepared on the basis that all assets, liabilities and reserve balances will transfer to the replacing council at their book value. However, the demise of Congleton Borough Council on 1 April 2009 will impact the financial statements in a number of areas;</p> <ul style="list-style-type: none"> • Post balance sheet event note, full disclosure of the demise of CBC and the transfer to the replacement council should be given in the accounts. • Accounting for transitional and restructuring costs, those costs that are to be borne by CBC should be included in the financial statements. 	<p>It is considered that costs incurred in the current year (2008/09) should be recognised in the Income and Expenditure Account as incurred, and costs contracted for should be disclosed in the notes to the financial statements as financial commitments, and then recognised as they are incurred.</p> <p>Disclosures for the current year surrounding LGR have been discussed with the Council, and with other Councils in Cheshire to ensure an appropriate and consistent level of disclosure across the county.</p>	<p>Amounts included in the Income and Expenditure account for the year as Exceptional Costs of Reorganisation have been reviewed and we concur that the amounts recognised appear reasonable and are non-recurring in nature.</p> <p>Disclosures for the current year surrounding LGR and Exceptional Costs of Reorganisation have been reviewed and the disclosures made appear reasonable.</p>
<p>Core Financial Systems:</p> <p>The underlying core systems in operation with the Council are fundamental to the compilation of the 2008/09 Financial Statements. We must determine whether it is appropriate to place reliance upon the underlying financial systems and controls to produce materially correct balances in the financial statements.</p>	<p>In conjunction with Internal Audit, core financial systems relevant to our audit opinion have been reviewed as part of our interim work.</p> <p>We will also assess the potential risk of material miss-statement in the accounts arising from fraud or the Council acting illegally.</p>	<p>For the areas assessed as part of the interim work, no issues of control were found.</p> <p>For those items that were not assessed at the interim stage, additional testing was performed at the final audit stage, and any recommendations have been noted on section 5 below.</p>

Key area of audit focus	Our approach	Resolution
<p>SORP 2008 requirements:</p> <p>We need to ensure the main Financial Statements are presented fairly and in accordance with the SORP 2008 and other applicable accounting requirements.</p>	<p>The Financial Statements will be reviewed against the requirements of the SORP 2008, and other relevant accounting standards.</p> <p>The changes required for compliance with the SORP 2008 are more limited than those required for the SORP 2007 had been, and individual changes expected to have an impact on the Council have been discussed with management.</p>	<p>The Financial Statements have been reviewed for compliance with SORP 2008 and other relevant accounting standards.</p> <p>The Financial Statements have been presented fairly and in accordance with SORP 2008 and other applicable accounting requirements.</p>
<p>Fixed assets:</p> <p>Fixed assets represent significant balances within the Financial Statements.</p> <p>The audit risk is that assets are capitalised that are not appropriate and do not create future economic benefit or provide a community use for the council.</p> <p>Under FRS 11 the Council should consider the carrying value of all significant fixed asset balances, including all civic buildings, to consider whether an impairment provision is necessary. The appropriate carrying value should be the value in use to Congleton, not the value in the use that CEC will have for specific assets.</p>	<p>Expenditure on the capital programme will be reviewed to ensure that assets are being capitalised or expensed appropriately. Substantive testing will also be performed on capitalised additions to provide us will sufficient levels of audit confidence.</p> <p>We will consider management's review as to whether there were any indications of impairment and the grounds for either making any impairment provisions or for not making any.</p>	<p>Analytical procedures have given us comfort that the amounts recorded in the Financial Statements appear reasonable. These procedures have been supplemented by substantive testing on a sample of assets to confirm existence and ownership.</p> <p>The impairment charges during the year have been carried out by appropriately qualified individuals and the rationale for the impairments in the year has been reviewed and appears reasonable.</p>

Key area of audit focus	Our approach	Resolution
<p>Investments:</p> <p>The Council has considerable investments held with various financial institutions. The magnitude of these cash balances means there is an inherent risk of the occurrence of fraud in this area. Events in the last 12 months involving funds held by local authorities in Icelandic banking institutions and also other countries' banking 'scares' increases the perceived risk attached to these investments.</p>	<p>Independent confirmation of the value of investments will be obtained directly from the financial institutions to allow the verification of the balances in the financial accounts. Where possible we will establish whether these funds have matured and been either returned or reinvested by the successor Council.</p>	<p>We have received independent confirmation from the financial institutions where monies have been deposited and we can confirm that the amounts recorded within the Financial Statements appear reasonable.</p> <p>All investments have subsequently matured after the year end, ensuring that the entity has no risk exposure to deposits lodged at year end.</p>
<p>Debtors:</p> <p>Debtors are expected to be a significant figure in the Financial Statements, and due to the devolved structure of the Council there is a significant risk that some debtors may not be recorded.</p> <p>This area also provides for significant management discretion in relation to the level of provisions provided.</p> <p>The impact of the recession may have a negative effect on the Council's ability to recover in full those amounts that were owed to it at the 31 March 2009.</p>	<p>As well as our standard analytic procedures, compliance testing will be used to enable us to obtain sufficient confidence that debtors are not materially miss-stated.</p> <p>The adequacies of provisions are to be considered, and the disclosures reviewed to ensure they comply with the SORP 2008 requirements.</p> <p>We will review the recovery of receipts after date to consider the adequacy of bad debt provisions.</p>	<p>Recommendations for improvements on the controls surrounding income streams were made in the previous year's audit findings report.</p> <p>Finance implemented daily cash controls in respect of the cash receipting system. Independent daily cash book reconciliations and controls were put into place to ensure completeness and accuracy of cash postings to the general and sales ledgers.</p> <p>No significant issues were noted.</p> <p>Provisions appeared reasonable, supported by the adequate recoveries post year end.</p>
<p>Creditors:</p> <p>Creditors are expected to be a significant figure in the Financial Statements, and due to the devolved structure of the Council there is a potential significant risk that some creditors may be omitted.</p>	<p>As well as our standard analytic procedures, compliance testing will be used to enable us to obtain sufficient confidence that creditors are not materially miss-stated.</p> <p>We will also test cut off procedures in the Council to ensure no omission of any material liabilities.</p>	<p>During the interim stage of the audit, we tested the controls surrounding expenditure and creditors.</p> <p>Satisfactory controls were in place to conclude that there were unlikely to be omissions of expenditure and creditors.</p> <p>No other significant issues were noted.</p>

Key area of audit focus	Our approach	Resolution
<p>Income and Expenditure:</p> <p>The Council has a significant degree of diversity in terms of its income sources, and its expenditure types. In addition, a proportion of receipts is cash based.</p> <p>This leads to an increased risk that income and expenditure may not be fully captured from all sources, leading to incompleteness of balances within the financial statements.</p>	<p>In conjunction with the work performed on debtors and creditors, the controls relating to income and expenditure will be reviewed, as will the testing performed by internal audit. We will then evaluate the results of the proves in order to determine whether further compliance and substantive testing will be required in order for us to obtain sufficient audit confidence.</p>	<p>We have performed testing on controls around expenditure streams, so are satisfied that material misstatements are unlikely.</p> <p>No significant issues were noted on expenditure streams from review of internal audit's work.</p> <p>As mentioned previously, the controls for income were not deemed to be satisfactory to place reliance on them.</p> <p>Hence detailed substantive testing was undertaken on income. No significant issues were identified.</p>

4 Audit and accounting issues identified during the audit

Issue	Resolution
<p>Presentation and Disclosure</p> <p>The disclosure in the accounts was substantially complete and the presentation was largely to a high standard.</p> <p>There were some minor amendments to be made to ensure that the financial statements were in line with the SORP 2008 and the CIPFA best practice guidelines.</p>	<p>The accounts were updated accordingly.</p>
<p>Netting off income and expenditure</p> <p>There were some items of expenditure and income netted off in the financial statements. This is not in accordance with accounting standards.</p>	<p>Where appropriate adjustments were made. Where it was deemed immaterial, these were left unadjusted.</p> <p>A schedule of the items identified and adjusted/unadjusted is on section 8.</p>
<p>Debtors from precepting bodies</p> <p>There were significant debtors from precepting bodies noted, due to an error in distributing the prior year collection fund surplus.</p>	<p>The balances were assessed for reasonableness with no issues identified.</p>
<p>Fraud identified in the year</p> <p>During the year it was noted that a fraud occurred at the Malkins Bank Golf Course.</p> <p>The sums involved were not material to the financial statements and the Council took appropriate action against the perpetrators in accordance with its fraud response plan.</p>	<p>The loss is immaterial and has been accounted for within the financial statements and no further adjustments are required. We understand that the control environment in this area has subsequently been strengthened.</p>

5 Internal control issues

We have set out below those areas of internal control weakness that we consider should be brought to the attention of the Members which arose as a result of our audit work. This does not constitute a comprehensive statement of all weaknesses that may exist in internal controls or of all improvements which may be made and has addressed only those matters which have come to our attention as a result of the audit procedures performed. An audit is not designed to identify all matters that may be relevant to you and accordingly the audit does not ordinarily identify all such matters.

Fact and potential consequence	Possible action	Management response	Timing of implementation and responsibility
<p>Reconciliation of payroll to the finance system</p> <p>The payroll system was not routinely reconciled throughout the year, which was a control weakness. There was an unreconciled difference at year end of £40k.</p> <p>If payroll is not reconciled in a timely and accurate manner, there could be over/underpayments to employees which remain undetected.</p>	<p>A monthly reconciliation should be performed between the payroll system and the general ledger.</p> <p>This should be reviewed and signed off by a senior member of the finance team.</p>	<p>When payroll compilation was contracted out to Macclesfield BC the payroll reporting tool link (Business Objects) was never reinstated. Consequently the monthly "Total" payroll reconciliation to general ledger is a very time consuming exercise. However all key payroll deduction accounts were reconciled to the general ledger on a monthly basis along with rigorous scrutiny by finance team members during the budget monitoring process. The annual reconciliation of gross pay resulted in a variance of 0.34% which is considered acceptable by management.</p>	<p>The payroll has now transferred to Cheshire East.</p>

Fact and potential consequence	Possible action	Management response	Timing of implementation and responsibility
<p>Personnel records</p> <p>There was not up to date information on personnel files of what pay grade/scale an employee was on; the Council instead relied entirely on the payroll system to provide accurate information.</p> <p>If an incorrect entry was input into the payroll system, it would never get picked up, as there are no supporting documents to say what an employee should or should not be getting paid.</p>	<p>Every time an employee gets an amendment to pay, this should be input into their relevant personnel file, and a check subsequently made to ensure that payroll has been updated appropriately.</p>	<p>A pro-forma was developed and used as from February 2009. This allowed for a file records to be created, signed by authorising manager and stored on personnel file to keep an audit track of changes to terms and conditions.</p> <p>An audit of the HR system and the payroll system was carried out before the upload of data to Oracle.</p>	<p>All personnel records have now been transferred to Cheshire East following the successful completion of the payroll audit.</p>

6 Significant accounting policies, disclosures and estimates

During the course of our audit, we reviewed the adequacy of the accounting policies, disclosures and estimates contained within the financial statements and their compliance with both relevant accounting standards and the requirements of CIPFA's Accounting Code of Practice and the local government SORP. Following discussion with management the Council expanded its disclosures concerning financial instruments but there were no matters of significance warranting members' attention. The following issues were also noted at audit:

Sale of the trade waste business

The sale of the trade waste business in the year was not disclosed as a discontinuing operation on the basis of materiality. Given that the net income for the previous year was £49k, this was deemed to be reasonable.

Council tax note to the collection fund

The note setting out how council tax was calculated for the year appears to lack simplicity when compared to council tax notes prepared by neighbouring authorities. However, given the impending LGR and the subsequent convergence of the council tax note, it was deemed acceptable that the note was left unaltered.

7 Uncertainties, risks, exposures, judgemental issues and going concern

We have not identified, during the course of our work, any significant issues relating to the above matters that we consider should be brought to the attention of Members. The major local government reorganisation in Cheshire, which led to the Council's demise on 31st March 2009 and the establishment of the successor Unitary Authority, is properly reflected in the notes to the accounts.

Set out below, for completeness, are the matters of judgement that we have identified during the course of our work, that we consider should be brought to the attention of Members:

Key Issue	Audit Impact	Resolution
<p>Bad debt provision</p> <p>The provisions made for bad and doubtful debt are subject to a considerable amount of judgement as they are formula based.</p>	<p>The Council has taken action to ensure provisions reflect the changing economic situation and debt profile but due to subjectivity in this area potential risk remains.</p>	<p>The provisions seemed broadly reasonable, so no specific conclusions can be made as it is a judgemental area.</p> <p>However, the Council should continue to monitor these debts closely as they are gradually increasing, and ensure appropriate action is taken to maximise recoverability.</p>
<p>Single status obligations</p> <p>The likely cost of pay equalisation is currently disclosed as a contingent liability, and the cost has not been recognised in the accounts.</p> <p>In addition, there has been a significant degree of estimation in the figure currently disclosed.</p>	<p>There could be a future obligation resulting from a past event that is being excluded from the 2008/09 reported results.</p>	<p>CBC had not completed the single status review during the lifetime of the authority and as a result the potential future costs have not been included in the financial statements.</p>

8 Unadjusted/adjusted misstatements

A summary of the unadjusted/adjusted errors identified during the course of our work is set out below, analysed between errors of fact and differences in judgement.

We have not disclosed below those items that we consider to be “clearly trivial” in the context of our audit. For this purpose we consider “clearly trivial” to be any matter less than £5,000 individually and in aggregate.

Account	Adjusted misstatements		Unadjusted Misstatements Factual		Unadjusted Misstatements Judgemental	
	I&E effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	I&E effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	I&E effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s
Depot Costs						
Dr Non-distributed income	133					
Cr Non-distributed expenditure	(133)					
Being the adjustment to reverse the posting of depot costs income and expenditure twice.						
Admin subsidy						
Dr Housing services expenditure	402					
Cr Housing services income	(402)					
Dr Central services expenditure	144					
Cr Central services income	(144)					
Being the adjustment to reverse the netting off on admin subsidy income and expenditure.						
Communications						
Dr Corporate and democratic income	71					
Dr Corporate and democratic expenditure	(71)					
Being the adjustment to reverse the grossing up of income and expenditure via a re-apportioned cost code.						
Specific bad debt provision						
Dr Non-distributed expenditure			28			
Cr Cultural related services income			(28)			
Being the adjustment to re-analyse the ‘gorgeous generation’ bad debt provision to non-distributed costs.						

Account	Adjusted misstatements		Unadjusted Misstatements Factual		Unadjusted Misstatements Judgemental	
	I&E effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	I&E effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s	I&E effect Dr/(Cr) £'000s	Balance Sheet effect Dr/(Cr) £'000s
Claim form amendment Dr Housing subsidy income Cr Housing subsidy debtor			47	(47)		
Being the adjustment due to the error found on the housing benefit subsidy claim form and the subsequent replacement form.						
Totals	≡	≡	<u>47</u>	<u>(47)</u>	≡	≡

9 Fees

In accordance with International Standard on Auditing (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, we set out below the fees charged and, as at 30 September 2009, the amount of agreed contracts for services and submitted written proposals, to CBC by all entities within the Baker Tilly UK Holdings Limited group, companies in which Baker Tilly UK Audit LLP members are directors (details of which are available from your audit principal) and all firms that are members of the Baker Tilly International network

The table sets out a comparison between our planned fees as shown in our 2008/09 audit plan and the 2008/09 outturn.

Code area	2008/09 planned fees £	2008/09 estimated outturn fees £
Audit of the Accounts	45,000	45,000
Use of Resources/ Value for Money Conclusion/Data Quality/Community Cohesion study/BVPP and BVPIs	40,500	38,500
Whole of Government accounts	2,500	2,500
LGR	20,000	22,000
TOTAL	108,000	108,000

10 Use of Resources

Value for money (VfM) conclusion

The VfM conclusion is an overall assessment drawing on the Use of Resources KLOEs, any work on the BV Performance Indicator's and any inspection activity carried out by Audit Commission. Our work this year was based on the Audit Commission's 2008/09 Value for Money Code Criteria for demising authorities. Having made the assessment against the criteria we have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of its resources for the year ended 31 March 2009. Our proposed opinion is outlined as part of **Appendix C**.

11 Independence

In accordance with International Standard on Auditing (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, there are no changes to the details of relationships between Baker Tilly UK Audit LLP and its related entities and CBC and its related entities that may reasonably be thought to bear on Baker Tilly UK Audit LLP’s independence and the objectivity of the audit principal, Mr D. Buxton and the audit staff and the related safeguards from those disclosed in the Audit & Inspection Plan dated June 2008 and updated on 25 June 2009.

Non-audit services provided by related entities to Congleton Borough Council and its related entities: None

In our professional judgement, Baker Tilly UK Audit LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the principal, Mr David Buxton and the audit staff is not impaired.

This confirmation has been prepared for the sole use of Cheshire East Council. It must not be disclosed to a third party, or quoted or referred to, without Baker Tilly UK Audit LLP’s written consent. No responsibility is assumed by Baker Tilly UK Audit LLP to any other person.

Appendix A – Responsibilities of auditors and the Council

Introduction to responsibilities

Those who are responsible for the conduct of public business and spending public money are accountable for ensuring both that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this accountability, public bodies and their management (both members and officers) are responsible for putting in place proper arrangements for the governance of their affairs and the stewardship of the resources at their disposal. They are also required to report on their arrangements in their annual published Statements on Internal Control.

The following paragraphs summarise the responsibilities of auditors and of audited bodies in relation to the responsibilities of auditors described in the Audit Commission's Code of Audit Practice (the Code).

Auditing the financial statements

The financial statements, which comprise the published accounts of the Council, are an essential means by which it accounts for its stewardship of the resources at its disposal and its financial performance in the use of those resources. It is the responsibility of the Council to:

- put in place systems of internal control to ensure the regularity and lawfulness of transactions;
- maintain proper accounting records; and
- prepare financial statements that present fairly the financial position of the body and its expenditure and income.

The Council is also responsible for preparing and publishing with its financial statements a statement on internal control. We audit the financial statements and give our opinion, including:

- whether they present fairly the financial position of the Council and its expenditure and income for the year in question; and
- whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards.

In carrying out the audit of the financial statements, we have regard to the concept of materiality and subject to this, we provide reasonable assurance that the financial statements:

- are free from material misstatement, whether caused by fraud or other irregularity or error;
- comply with statutory and other applicable requirements; and
- comply with all relevant requirements for accounting presentation and disclosure.

We examine selected transactions and balances on a test basis and assess the significant estimates and judgments made by the Council in preparing the statements.

We also evaluate significant financial systems, and the associated internal financial controls, for the purpose of giving their opinion on the financial statements. Where we identify any weaknesses in such systems and controls, we draw them to the attention of the Council, but cannot be expected to identify all weaknesses that may exist.

We review whether the annual governance statement has been presented in accordance with relevant requirements and report if it does not meet these requirements or if it is misleading or inconsistent with other information of which we are aware. In doing so we take into account the knowledge of the Council gained through our work in relation to the audit of the financial statements and through our work in relation to the Council's arrangements for securing economy, efficiency and effectiveness in the use of its resources. We are not required to consider whether the annual governance statement covers all risks and controls, nor are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or risk and control procedures.

Responsibilities in relation to arrangements for securing economy, efficiency and effectiveness in the use of resources

It is the responsibility of the Council to put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, and to ensure proper stewardship and governance, and regularly to review the adequacy and effectiveness of them. Such corporate performance management and financial management arrangements form a key part of the system of internal control and comprise the arrangements for:

- establishing strategic and operational objectives;
- determining policy and making decisions;
- ensuring that services meet the needs of users and taxpayers and for engaging with the wider community;
- ensuring compliance with established policies, procedures, laws and regulations;
- identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working;
- ensuring compliance with the general duty of best value, where applicable;
- managing its financial and other resources, including arrangements to safeguard the financial standing of the audited body;
- monitoring and reviewing performance, including arrangements to ensure data quality; and
- ensuring that the audited body's affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption.

The Council is responsible for reporting on these arrangements as part of its annual governance statement.

We have a responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In meeting this responsibility we should review and, where appropriate, examine evidence that is relevant to the Council's corporate performance management and financial management arrangements, as summarised above, and report on these arrangements. We also have a responsibility to consider, and report on, the Council's compliance with statutory requirements in respect of the preparation and publication of its best value performance plan.

We are responsible for reporting annually our conclusion, having regard to relevant criteria specified by the Audit Commission, as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We report if significant matters have come to our attention that prevent us from concluding that the Council has put in place proper arrangements. However, we are not required to consider whether aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are effective.

In planning our audit work in relation to the arrangements for securing economy, efficiency and effectiveness in the use of resources, we consider and assess the relevant significant business risks. These are the significant operational and financial risks to the achievement of the Council's statutory functions and objectives, which apply to the Council and are relevant to our responsibilities under the Code, and the arrangements it has put in place to manage these risks. Our assessment of what is significant is a matter of professional judgment and includes consideration of both the quantitative and qualitative aspects of the item or subject matter in question. When assessing risk we consider:

- the relevance and significance of the potential business risks faced by all bodies of a particular type;
- other risks that apply specifically to the Council;
- the Council's own assessment of the risks it faces; and
- the arrangements put in place by the Council to manage and address its risks.

In assessing risks we have regard to:

- evidence gained from previous audit work, including the response of the Council to previous audit work;
- the results of assessments of performance carried out by the Commission;
- the work of other statutory inspectorates; and
- relevant improvement needs, identified in discussion with the Commission or other statutory inspectorates.

Where we rely on the reports of statutory inspectorates as evidence relevant to the Council's corporate performance management and financial management arrangements, the conclusions and judgments in such reports remain the responsibility of the relevant inspectorate or review Council.

In reviewing the Council's arrangements for its use of resources, it is not part of our functions to question the merits of the policies of the Council, but we may examine the arrangements by which policy decisions are reached and consider the effects of the implementation of policy. It is the responsibility of the Council to decide whether and how to implement any recommendations made by us. In making any recommendations we do not have any role in the decision-making arrangements of the Council.

While we may review the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources, we cannot be relied on to have identified every weakness or every opportunity for improvement. The Council should consider our conclusions and recommendations in their broader operational or other relevant context.

We are not required to report to you on the accuracy of performance information that you publish. Our work is limited to a review of the systems put in place by the Council to collect, record and publish the information, in accordance with guidance issued by the Audit Commission. Nor are we required to form a view on the completeness or accuracy of the information or the realism and achievability of the assessments published by the Council.

Audit work in relation to the Council's arrangements to ensure that its affairs are managed in accordance with proper standards of financial conduct, and to prevent and detect fraud and corruption, does not remove the possibility that breaches of proper standards of financial conduct, or fraud and corruption, have occurred and remained undetected. Nor is it our responsibility to prevent or detect breaches of proper standards of financial conduct, or fraud and corruption, although we are alert to the possibility and will act promptly if grounds for suspicion come to our notice.

Appendix B – Draft letter of representation

TO BE TYPED ON COUNCIL'S LETTERHEAD

Baker Tilly UK Audit LLP
Chartered Accountants
3 Hardman Street
Manchester
M3 3HF

Date:

Dear Sirs

AUDIT OF FINANCIAL STATEMENTS – 31ST MARCH 2009

We confirm, to the best of our knowledge and belief, having made appropriate enquiries of other members, directors and officers and having received a letter of representation from the former S151 Officer of Congleton Borough Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31st March 2009.

1. We acknowledge as Members and as the Borough Treasurer and Head of Assets our responsibility for the financial statements. All the accounting records have been made available to you for the purpose of your audit and all transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information and explanations, including minutes of all Council and sub Committee meetings held between the beginning of the accounting period and the date of this letter, have been made available to you.
2. We confirm that we have taken all the steps that we ought to have taken as Members/ Borough Treasurer and Head of Assets in order to make ourselves aware of any relevant audit information and to establish that it has been communicated to the auditors. We confirm that, as far as we are aware, there is no relevant audit information of which the auditors are unaware.
3. We confirm that:

- a. We acknowledge responsibility for the design and implementation of internal control to prevent and detect fraud and error;
 - b. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud;
 - c. We have disclosed to you our knowledge of fraud and suspected fraud affecting the Council involving:
 - i. Management;
 - ii. Employees who have significant roles in internal control; and
 - iii. Others where the fraud could have a material effect on the financial statements; and
 - d. We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, analysts, regulators or others.
4. We have not adjusted the misstatements as set out in Section 8 of the Audit Findings Report and attached to this letter, on the grounds on immateriality.
 5. We confirm that full disclosure is made in the financial statements of:
 - a. any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans, or credit transactions) for Members/directors or any guarantee or provision of security for Members/directors;
 - b. the identity of the party which controls the Council, if any;
 - c. transactions and balances with related parties including:
 - i. the names of the transacting parties;
 - ii. a description of the relationship between the parties;
 - iii. a description of the transactions;
 - iv. the amounts involved;

- v. any other elements of the transactions necessary for an understanding of the financial statements;
 - vi. the amounts due to or from related parties at the balance sheet date and provisions for doubtful debts due from such parties at that date; and
 - vii. amounts written off in the period in respect of debts due to or from related parties.
- d. outstanding capital commitments contracted for at the balance sheet date.
- e. all contingent liabilities including details of pending litigation and material claims against the Council.
- f. All guarantees, warranties or other financial commitments.
6. We have disclosed all events of which we are aware which involve possible non-compliance with those laws and regulations which provide a legal framework within which the Council conducts its business and which are central to its ability to conduct that business. We have also notified you of the actual or contingent consequences which may arise from such non-compliance.
7. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
8. There have been no events (other than those already disclosed in the financial statements) since the balance sheet date, which necessitate revision of the figures in the financial statements or inclusion of a note thereto. Should such further material events occur prior to your signature of the audit report we will advise you accordingly.

9. We are satisfied that the information underlying the valuation of the pension scheme liabilities is consistent with our knowledge of the Council and that the information provided to the scheme actuary to calculate the present value of scheme liabilities is complete and accurate.

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

The contents of this letter were considered and approved by the Governance and Constitution Committee at its meeting on 30 September 2009.

Yours faithfully

Signed on behalf of Cheshire East Council (in relation to the demised authority of Congleton Borough Council)

Lisa Quinn
Borough Treasurer and Head of Assets.

Councillor Wesley Fitzgerald
Leader of the Council

Appendix C – Draft audit report

Independent Auditor's report to the Members of Cheshire East Council in respect of the accounting statements of the demised Congleton Borough Council

Opinion on the financial statements

We have audited the Authority accounting statements and related notes of Congleton Borough Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The Authority accounting statements comprise the Authority Income and Expenditure Account, the Authority Statement of the Movement on the General Fund Balance, the Authority Balance Sheet, the Authority Statement of Total Recognised Gains and Losses, the Authority Cash Flow Statement, the Collection Fund and the related notes. These 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 East Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Borough Treasurer and Head of Asset's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Authority accounting 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 and its income and expenditure for the year

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

We read other information published with the Authority accounting statements, and consider whether it is consistent with the audited Authority accounting statements. This other information comprises the Foreword by the Borough Treasurer and Head of Assets. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Authority accounting statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our 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 Authority 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 Authority accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our 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.

XXXXXXXXXXXXX
Chartered Accountants,
3 Hardman Street,
Manchester,
M3 3HF

Date:

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

We are 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 us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for demising local authorities specified by the Audit Commission and published in December 2008, we are satisfied that, in all significant respects, Congleton Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

We certify that we 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.

XXXXXXXXXXXXXXXXXXXXX
Chartered Accountants,
3 Hardman Street,
Manchester,
M3 3HF

Date: