

Annual Governance Report

Cheshire East Borough Council

Audit 2009/10

Date **September 2010**

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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 2009/10 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 your arrangements to secure value for money in your use of resources.

| Financial statements | Results | Page |
|---|---------|------|
| Unqualified audit opinion | Yes | 6 |
| Financial statements free from material error | Yes | 6 |
| Adequate internal control environment | Yes | 8 |
| Value for money | Results | Page |
| Adequate arrangements to secure value for money | Yes | 11 |

Audit opinion

- 1 My audit of your financial statements is now substantially complete. Subject to my final review of the financial statements, and receipt of the requested letter of representation, I plan to issue an unqualified opinion on the financial statements.

Financial statements

- 2 The Council's finance team produced the financial statements for approval by the Audit and Governance Committee in June 2010. This was in line with the statutory deadline and is a significant achievement given the complexities involved in preparing the first set of financial statements for a large new unitary council.
- 3 The financial statements have been amended for 5 material errors and 22 non material errors. The adjusted errors meant that the deficit reported in the draft accounts has increased from £64,317 to £66,639. In addition my audit identified three misstatements that management have informed us that they do not intend to adjust.

Value for money

- 4 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Audit fees

- 5 I set a fee of £401,925 for the audit in April 2009. The assumptions made in setting the fee at this level have changed, particularly for the work required to review and test material financial systems and to deal with questions raised by members of the public and officers. I received several questions during the year including questions about the sale of County Hall. The cost of the additional work needed to respond to these questions and report to the Council is £5,950. I have discussed this with the Borough Treasurer.

Independence

- 6 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Next steps

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.

7 I ask the Governance & Audit Committee to:

- consider the matters raised in the report before approving the financial statements (pages 6 to 8);
- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- agree to adjust the errors in the financial statements I have identified that management has declined to amend or set out the reasons for not amending the errors (Appendix 3);
- approve the letter of representation on behalf of the Council before I issue my opinion and conclusion (Appendix 4); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

- 8 Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft audit report.

Errors in the financial statements

- 9 I have identified five material errors in the accounts. For the purposes of my audit a material error is one which is more than £10.6m. I also identified 22 errors which are below this level but cannot be considered as trivial. There were also some errors and omissions in the notes to the accounts. The Borough Treasurer has agreed to amend the accounts to correct all but two of these errors. I have listed all the amendments at Appendix 2. The un-amended errors are reported in Appendix 3. .
- 10 I draw your attention to following material errors identified at my audit:

Cash and Bank

The cash and bank balance of £149,631k was overstated by net £31.7m as follows:

| Finding | £'m |
|---|--------|
| Incorrect inclusion of short term debtor in cash balance | 22.7m |
| Incorrect inclusion of short term investments in cash balance | 10.1m |
| Income not posted in to general ledger (cash balance understated) | (1.1m) |
| Total net adjustment | 31.7m |

The accounts have been amended and now show a cash balance of £118,019k

Long-term Debtors and Creditors

The long-term debtors and creditors balances were both overstated by £18.1m due to the incorrect inclusion of historic information on employee car loans. The residual balance on car loans at the year end was a £6k creditor.

Financial statements

My audit also identified that the long-term debtors and creditors balances were also overstated by £0.8m and £3.5m respectively due to errors in the calculation of the Council's share of joint assets.

Fixed Assets

The disclosure in Note 17 of the movement in fixed assets during the year was incorrect mainly due to classification errors and the inclusion of net amounts in respect of additions and impairments. The following adjustments have been agreed:

- Increase in valuation of assets under construction by £1.045m expenditure previously classified as 2010/11 expenditure and by £1.195 expenditure previously written off in 2009/10 as capital expenditure not adding value
- Decrease in land and buildings of £4.023m relating to asset demolished in year but not excluded from the asset register
- Increase in value of additions and impairments of £10.606m to show these items gross in line with recognised accounting practice.

Key areas of judgement and audit risk

- 11 In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Table 1 Key areas of judgement and audit risk

| Issue or risk | Finding |
|---|--|
| Accuracy of the Council's opening balances | My testing has concluded that the disaggregated balances from the former Cheshire County Council and the balances from the three former district councils have been properly reflected in the Council's ledger and as the opening balances in the financial statements except for the inclusion of district council intra authority debtors and creditors which were not eliminated in accordance with standard accounting practice. These balances were written off during the year and consequently there is nil impact on the closing reported position |
| Accounting treatment and disclosure of shared services costs. | I have concluded that the shared service costs are accurately and correctly disclosed in the financial statements. |
| Accounting treatment and disclosure of Private Finance Initiative (PFI) and similar | PFI contracts have been recognised in the accounts in accordance with financial |

| Issue or risk | Finding |
|---|--|
| schemes. | reporting standards. The basis of the valuation of the PFI asset has been revised and is now valued as a leased rather than freehold asset. |
| Harmonisation of accounting policies from the demised councils. | My audit did not identify any material issues that require to be reported to you |
| Group relationship with Connexions. | I have reviewed the Council's justification for not producing group accounts for its relationship with Connexions. I agree with the conclusions reached. |
| Changes introduced by the CIPFA statement of recommended practice 2009. | The required changes relating to the treatment of national non domestic rates, the collection fund and PFI and similar arrangements have been implemented properly. |
| Fixed asset valuation | My testing found two errors in valuation of fixed assets. One related to a school recorded in the asset register at £4.023m but was demolished in year. The other related to a capital cash payment of £1.045m incorrectly treated as 2010/11 expenditure. These items have been adjusted. |
| Risk of financial misreporting through fraud or error | I undertook additional audit testing of cut-off, year end journals and provisions. I did not identify any unusual transactions or other matters that I need to report to you. |

Important weaknesses in internal control

12 I have identified a number of control weaknesses during the audit. These are set out in Table 2.

Table 2

| Issue | Finding |
|---|---|
| Bank reconciliations - the review of the year end bank reconciliations found that a number of reconciling items had not been cleared. | Income received in the bank not recorded within the accounts. Audit adjustment of £1.1m agreed with officers. |

Financial statements

| Issue | Finding |
|---|---|
| Payroll: Documentary evidence that the control over the authorisation of the payroll was operating effectively throughout the year was weak. We carried out additional testing of payroll payments back to contracts of employment. | We found one instance where the payment could not be agreed to supporting evidence. This did not give rise to a material error. |
| Accounts Receivable: The control over the authorisation of invoice requisitions was "turned off" early in the year. This control provides assurance over the accuracy and classification of income. | Substantive testing of invoices did not identify any errors in accuracy or classification of income reported in the accounts. |

Letter of representation

- 13** Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 4 contains the draft letter of representation.

Accounting practice and financial reporting

- 14** I consider the non-numeric content of your financial reporting and report any significant issues arising.
- 15** This has been a challenging year for officers as they prepared the Council's first set of accounts. In addition to a major exercise to agree opening balances, there were a number of technical issues to deal with such as the implementation of new accounting rules around the recognition of private finance initiatives and service concessions and changes to collection fund accounting. These issues were generally dealt with successfully but the accounts did contain a significant number of errors particularly in relation to less technical areas of the accounts. The working papers and audit trail to support the accounts were adequate and officers responded positively to requests for additional information.
- 16** Overall there is scope to improve the accuracy of the accounts presented for audit and supporting working papers. A robust quality assurance process which includes a review of the accounts by a senior officer should ensure that the disclosures in the accounts comply with the Statement of Recommended Practice and that housekeeping errors are identified and rectified before the accounts are presented for audit.

Recommendation

- R1** The Council should institute a quality assurance process which includes a review of the accounts by a senior officer to ensure that the disclosures in the accounts comply with the Statement of Recommended Practice and that housekeeping errors are identified and rectified before the accounts are presented for audit.
- R2** The Council to ensure that a full set of working papers to support the financial statements is available when the accounts are submitted for audit.

Value for money

I am required to decide whether the Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion. I have based my conclusion on my work on the scored use of resources judgement.

Value for money conclusion

- 17 I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I have shown my conclusions on each of the areas below.
- 18 In early 2010, the Audit Commission carried out work at the Council to inform its annual Use of Resources assessment. Following the abolition of Comprehensive Area Assessment in May 2010, the Commission no longer issues scored Use of Resources assessments. However, I have placed reliance on the work my team had already completed to support my opinion on the Council's arrangements to deliver value for money – known as my VFM Conclusion.
- 19 I intend to issue an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in the use of resources. Appendix 1 contains my draft report.

Table 3 Value for money conclusion

The Council put in place satisfactory corporate arrangements for securing economy, efficiency and effectiveness in its use of resources

| Criteria | Met |
|--|--------------|
| Managing finances | |
| Planning for financial health | Yes |
| Understanding costs and achieving efficiencies | Yes |
| Financial reporting | Yes |
| Governing the business | |
| Commissioning and procurement | Yes |
| Use of information | Yes |
| Good governance | Yes |
| Risk management and internal control | Yes |
| Managing resources | |
| Natural resources | Not assessed |

| Criteria | Met |
|----------------------------|-----|
| Strategic asset management | Yes |
| Workforce | Yes |

Managing finances

- 20** Since its inception on 1 April 2009 the Council has worked hard to develop its strategic performance management and financial planning arrangements. However, these arrangements are not yet fully integrated although significant progress was made in the second half of the year. The Council used interim plans (based on inherited priorities from predecessor bodies) for this year while it put longer term strategic plans in place following consultation with stakeholders and formal service reviews.
- 21** Budget setting is effective and spending has been managed within overall budgets through:
- a robust budget monitoring approach,
 - challenges around the management of service demands; and
 - use of reserves.
- 22** The Council has engaged a range of stakeholders to inform its budget setting process for 2009/10. However, there is scope to develop income collection arrangements and ensure that charging policies effectively support corporate objectives.
- 23** The Council has a robust approach to understanding its costs. As part of its business planning process, the Council developed a set of value for money (VFM) profiles comparing costs and performance with unitary authorities of a similar size and nature. This information was used to influence in year service planning. More detailed benchmarking was undertaken within individual service areas. All services underwent a challenge panel of members and officers where costs and performance were reviewed. This process enabled the Council to identify areas of high costs and challenge services to identify measures to bring budgets back into balance and determine investment priorities.
- 24** However, the Council's approach to whole life costing is mixed. I found examples of it being used for larger projects but because there is no formal corporate approach in place, it was not applied consistently. The use of unit cost information was again mixed although there was evidence of the use of unit cost information within some services,
- 25** The Council successfully delivered efficiency savings of £9.7m in year through a range of mechanisms including service redesign, shared services, procurement and transformation projects.
- 26** The Council adopted a strategic approach to financial reporting and monitoring which concentrated on managing the budget at a fairly high level and focussed on the

Value for money

identification and management of costs pressures and delivery of planned savings. There was evidence of close financial monitoring through the implementation of robust action plans to address budget variances.

- 27 Financial reporting across the Council is adequate and has improved over the year. Quarterly financial updates were reported to Cabinet and included a commentary on action planning to address significant forecast outturn variances. More detailed remedial action plans were included in the three quarter review to Cabinet to demonstrate that the risks/impact of the proposed actions had been considered to ensure no adverse impact on service delivery. Financial reporting at service level was less detailed.
- 28 The Council plans to strengthen its arrangements by integrating financial and performance information in reports to cabinet and more closely aligning service reporting to the revised structure.
- 29 The Council's financial statements were prepared and audited in line with the statutory timetable. This was a challenging year because of the need to agree opening balances and establish systems and processes for closedown. Although there were material errors in the accounts and amendments were needed, overall the accounts were of reasonable quality. There is scope to strengthen working papers, audit trails and quality assurance checks going forwards.

Governing the business

- 30 Corporate procurement arrangements have developed well over the last year. There is a procurement strategy in place and a three year planning cycle for procurement activity within the Council. The Council has an understanding of inequalities, diversity and needs of its local communities, based on the Joint Strategic Needs Assessment. However, the lack of a long term sustainable community strategy means that it has yet to set key priorities and actions for future service delivery. As a result it is not yet possible to see how commissioning and procurement activity link to local priorities.
- 31 The Council has made use of a variety of shared service arrangements to secure good levels of service and efficiencies (£10m to date). The Council is reviewing procurement activity by categories across the whole organisation and has developed guidelines for sustainable procurement. During the year, the Council worked with local businesses, for example, by explaining how they could do business with the Council. Where appropriate, it supported potential providers, in building their capacity to deliver services. I also found examples of the Council delivering improvement and efficiency through service redesign.
- 32 After a slow start, the Council implemented a data quality and performance management framework. A corporate performance peers group provides a regular forum for updates and training on performance management and data quality across departments. The Council's corporate performance management framework, which is based on the national indicator sets, is supported by more detailed and better developed performance management arrangements at service levels. However performance management within the local strategic partnership is limited and data

protocols are not yet in place. The Council is working with its partners to improve the data it uses.

- 33** Internal audit carried out a review of the reliability of data systems and checked a sample of National Indicators. It found inconsistencies in the approach adopted across the Council to completing and submitting returns. There is scope to improve the accuracy of some reported performance indicators.
- 34** The Council has effective arrangements in place to ensure data security and compliance with statutory requirements and achieved two major security accreditations: the Government Connect Code of Connection and N3 Code of Connection.
- 35** Prior to inception, the Council's shadow authority approved the constitution which provides comprehensive coverage of the roles and responsibilities of Members and officers. For 2009/10, the Council articulated its ambitions and strategic priorities in its Corporate Plan based on the Interim Sustainable Community Strategy and established a framework for local consultation through the seven Local Area Partnerships. These partnership arrangements are still developing and while a draft governance protocol for the Local Strategic partnership is in place, governance arrangements for all other identified partnerships have yet to be formally documented.
- 36** The basic components of an ethical framework and appropriate internal control systems including an internal audit function, audit committee, Codes of Conduct for Members and staff, whistle blowing and complaints policies were in place during the year. The Standards Committee has been proactive in raising standards of councillor conduct at the Council. The Council's complaints policy was updated in light of operational issues that arose during the year and the Council is looking to replace its complaints system to improve reporting arrangements.
- 37** The Council's Risk Management Strategy provides a framework for managing strategic, operational and partnership risks. The roles and responsibilities of members and officers are clearly set out. There is a Strategic Risk Register in place underpinned by directorate and service risk management processes with Corporate and Directorate Risk Management Groups reporting up through the organisation. Service plans include details of relevant corporate and service specific risks. Members are involved in the identification and management of strategic risks. A Member chairs the Corporate Risk Management Group which receives reports from the Directorate Risk Management Groups and reports quarterly to Corporate Management Team, Governance & Constitution Committee and the Cabinet. Training was provided to members responsible for risk management during the year.
- 38** Basic strategies to manage the risk of fraud and corruption are in place including an Anti-Fraud and Corruption Strategy, Anti Money Laundering Strategy and Codes of Conduct for Members and Employees. The Whistleblowing Policy is available on the Council's website and was publicised in the Council's newsletter and in Team Talks. The Anti Fraud and Corruption Strategy sets out the roles and responsibilities of members, officers as well as partners, contractors, consultants and suppliers. The strategy affirms the Council's commitment to data matching, specifically to NFI and the Housing Benefit Matching Service. This year the Council undertook a programme of proactive housing benefit fraud work. The programme was based on the high risk

Value for money

areas identified by the predecessor bodies rather than a formal risk assessment. There is a good record of prosecution with some limited publicity in the local press for successful cases.

- 39** The Council's systems of internal control are generally sound. The Internal Audit team delivered a risk based plan covering corporate governance, core financial systems, key departmental systems, anti-fraud and corruption work and strategic reviews. No significant issues impacting on the key financial systems were identified. The Internal Audit section largely met the requirements of CIPFA's Code of Practice on Internal Audit although there is scope to develop its performance management and quality assurance arrangements.
- 40** I have reviewed the arrangements for the sale of the former County Hall site. I am satisfied that this does not raise concerns about the Council's overall governance arrangements.
- 41** Business continuity is managed as part of the risk management process. Business continuity plans are informed by business impact assessments and this year successfully responded to the flu pandemic and severe weather.

Managing resources

- 42** The Council put high level interim asset management plans in place for the year. This approach allowed the Council to focus its activities on those areas fundamental to its establishment and day to day operations. As a result, the Council achieved a number of significant outcomes including the development of a single database for all assets transferred from predecessor bodies alongside a property maintenance plan including £6m investment. The Council also relocated over 1000 staff from a number of locations across Cheshire and consolidated them at three main sites. Major refurbishment work was also carried out.
- 43** During the year, the Council engaged CIPFA to undertake an external challenge of its approach to asset management and its interim plans. The review acknowledged the work to date but identified the need to further develop the Council's strategic approach. Arrangements could be enhanced through the development of a strategic asset management plan; establishing a corporate forum to coordinate strategic asset management and clarifying the roles & responsibilities between the Asset Management Team and Finance. The Council needs to develop a whole life costing approach to strategic asset management.
- 44** In its first year the Council put in interim plans for managing its staff resources, including an interim workforce plan. Work also started on a long term three year Workforce strategy. Key HR policies were identified and in place from inception on the 1st April 2009 and a review programme to update all the remaining policies and procedures was set up.
- 45** The Council has achieved a number of significant outcomes in terms of managing its resources. Its achievements in relation to workforce management include the:
- transfer of over 8000 staff to the new authority;
 - development of a shared HR service;

- relocation of over 1000 staff; and
- delivery of staffing reductions.

46 In addition, during this period of change the Council continued to secure improvements in sickness absence which is now down to 7 days.

47 The Council regularly consults and engages with staff, for example on the Organisation Development strategy. Training programmes to support staff development are in place. The results of the first staff survey were very positive with the Council outperforming the Local Authority average in a number of areas including: good communication, feeling part of a team, job satisfaction and managing change. Work is underway to develop the Council's approach to equality and diversity.

Glossary

Annual governance statement

- 48** A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

- 49** A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the certificate.

Audit opinion

- 50** On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:
- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
 - whether they have been prepared properly, following the relevant accounting rules; and
 - for local probation boards and trusts, on the regularity of their spending and income.

Qualified

- 51** The auditor has some reservations or concerns.

Unqualified

- 52** The auditor does not have any reservations.

Value for money conclusion

- 53** The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Appendix 1 – Independent auditor's report to Members of Cheshire East Borough Council

Opinion on the Authority accounting statements

- 54** I have audited the accounting statements and related notes of Cheshire East Borough Council for the year ended 31 March 2010 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, the Collection Fund and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.
- 55** This report is made solely to the members of Cheshire East Borough 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 published by the Audit Commission in April 2008.

Respective responsibilities of the Borough Treasurer and auditor

- 56** The Borough Treasurer's responsibilities for preparing the accounting statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice are set out in the Statement of Responsibilities for the Statement of Accounts.
- 57** 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).
- 58** I report to you my opinion as to whether the accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council and its income and expenditure for the year.
- 59** 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 accounting statements. I am not

Appendix 1 – Independent auditor’s report to Members of Cheshire East Borough Council

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 Council’s corporate governance procedures or its risk and control procedures.

- 60 I read other information published with the Council’s accounting statements, and consider whether it is consistent with the audited Council 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 Council’s accounting statements. My responsibilities do not extend to any other information.

Basis of audit opinion

- 61 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 Council in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Council’s circumstances, consistently applied and adequately disclosed.
- 62 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

- 63 In my opinion the Council’s accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended.

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

Council’s Responsibilities

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

Auditor’s Responsibilities

- 65** I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009. I report if significant matters have come to my attention which prevent me from concluding that the Council has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

- 66** I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in October 2009, and the supporting guidance, I am satisfied that, in all significant respects, Cheshire East Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2010.

Certificate

- 67** 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.

Karen Murray
Officer of the Audit Commission

September 2010

Audit Commission,
1st Floor, Block 4, The Heath Business & Technical Park,
The Heath, Runcorn,
Cheshire, WA74QF

Appendix 2 – Amendments to the draft accounts

I identified the following material or significant misstatements during my audit and managers have made the necessary adjustments. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Table 4

| | | Income and Expenditure Account | | Balance sheet | |
|--|---|--------------------------------|----------|---------------|----------|
| Adjusted misstatements | Nature of adjustment | Dr £000s | Cr £000s | Dr £000s | Cr £000s |
| Balance sheet - cash and bank | Short term debtor of £22,735k misclassified as cash | | | 22,735k | 22,735k |
| Note 22 - Car Loans | Long term debtor overstated by £18,147k | | | 18,417k | 18,147k |
| Note 30 - Car Loans | Long term creditor overstated by £18,153k | | | 18,153k | 18,153k |
| Balance Sheet - cash and bank | Short term investment of £10,081k incorrectly classified as cash | | | 10,081k | 10,081k |
| Note 30 - Joint assets | Long term creditor overstated by £3,534k | | | 3,543k | 3,543k |
| Note 22 - Joint assets | Long term debtor overstated by £800k | | | 800k | 800k |
| Impairment - I&E / Fixed assets | PFI impairment accounted for net instead of gross value | 2,100k | | | 2,100k |
| Income & Expenditure - loss on disposal fixed assets | Understatement of loss on disposal of Fixed Assets by inclusion of County sale proceeds | 1,682k | 1,682k | | |

Appendix 2 – Amendments to the draft accounts

| | | Income and Expenditure Account | | Balance sheet | |
|--|--|--------------------------------|------|---------------|---------|
| Cut off error | 2009/10 capital expenditure of £1,045k not included in accounts | | | 1,045k | 1,045k |
| Balance sheet - fixed assets | Reclassification of assets from operational to non operational - £11,107k | | | 11,107k | 11,107k |
| SMGFB | Net transfer to or from earmarked reserves understated by £146k | 146k | 146k | | |
| Balance sheet - L/T Borrowing and I&E Interest Payable | Interest payable, and L/T Borrowing , understated by £304k | 304k | | | 304k |
| Balance sheet - fixed assets | Asset demolished - balance overstated by £4,023k | | | 4,023k | 4,023k |
| Balance sheet - cash and bank | Balances in bank at 31 March not reflected in ledger - cash balance understated by £1,193k | | | 1,193k | 1,193k |
| Balance sheet - fixed assets | Additions and impairments netted off in error - £10,606k | | | 10,606k | 10,606k |
| Balance sheet - L/T Debtors | Sale of County Hall did not include the car park - L/T Debtor understated by £950k | | | 950k | 950k |
| Fixed assets - debtors and creditors | Balances overstated by £1,932k due to incorrect posting of journals | | | 1,932k | 1,932k |

- 68** Further amendments have been made which impact on the Statement of Total Recognised Gains and Losses, Cash Flow Statement, together with a number of notes to the main statements.

Appendix 3 – Unadjusted misstatements in the accounts

I identified the following misstatements during my audit, but management has not adjusted the financial statements. I bring them to your attention to help you in fulfilling your governance responsibilities. If you decide not to amend, please tell us why in the representation letter. If you believe the affect of the uncorrected errors, individually and collectively, is immaterial, please reflect this in the representation letter. Please attach a schedule of the uncorrected errors to the representation letter.

Table 5

| Description of error | Accounts affected | Value of error £ million |
|--|--|----------------------------------|
| Depreciation charged in error on surplus assets and investment properties | I & E and accumulated depreciation (Balance sheet) - depreciation over charged | £0.110m |
| Community assets revalued in error | Community assets should be shown at historic costs and not revalued | £0.172m |
| Opening balances transferred from District Councils incorrectly included intra authority debtors and creditors | Opening Balances - Debtors / Creditors and General Fund | £1.2m |
| Adjustments to opening debtors and creditor balances not fully agreed to supporting audit trail | Opening Balances Debtors / Creditors /Cash | £0.69m Debtor £0.87m Creditor |
| Total recognised gains and losses for the year per STRGL does not agree to movement in equity for the year | Uncertainty – could impact I&E or Balance sheet | £0.09m imbalance |

Appendix 4 – Draft letter of representation

To: Karen Murray
District Auditor
Audit Commission
The Heath Business and Technical Park
Runcorn
Cheshire
WA74QF

Dear Mrs Murray

Cheshire East Borough Council - Audit for the year ended 31 March 2010

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of the Council the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2010. All representations cover the Council's accounts included within the financial statements.

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 Council Accounting in the United Kingdom: A Statement of Recommended Practice which gives a true and fair view of the financial position and financial performance of the 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 Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

Uncorrected misstatements

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those

Appendix 4 – Draft letter of representation

charged with governance within the Council and the reasons for not correcting these items are as follows;
reason 1 etc;
reason 2

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, analysts, regulators or others.

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 Council.

The 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.

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.

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 have occurred which would require additional adjustment or disclosure in the financial statements.

Specific Representations

Pension Fund liabilities

I confirm that:

- all unfunded liabilities e.g. discretionary added years awarded to staff in the LGPS and discretionary benefits awarded to teachers under the Teachers Pension scheme are included within the FRS17 liability figures, and
- there have been no changes that would affect the split of pension fund liabilities previously notified to the pension fund actuary.

Valuation of Macclesfield land and buildings

I am satisfied that valuation of Macclesfield land and buildings has been carried out by an appropriately qualified and independent valuer and that the basis of the valuation is consistent with that used by the District Valuer.

Appendix 4 – Draft letter of representation

Signed on behalf of Cheshire East Borough Council

I confirm that the this letter has been discussed and agreed by the Council on 30 September 2010

Lisa Quinn
Borough Treasurer

Appendix 5 – Action plan

| Page no. | Recommendation | Priority 1 = Low 2 = Med 3 = High | Responsibility | Agreed | Comments | Date |
|----------|--|--|----------------|--------|----------|------|
| | Annual Governance Report 2009/10 - Recommendations | | | | | |
| 10 | The Council should institute a quality assurance process which includes a review of the accounts by a senior officer to ensure that the disclosures in the accounts comply with the Statement of Recommended Practice and that housekeeping errors are identified and rectified before the accounts are presented for audit. | 3 | | | | |
| 10 | The Council to ensure that a full set of working papers to support the financial statements is available when the accounts are submitted for audit. | 3 | | | | |

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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