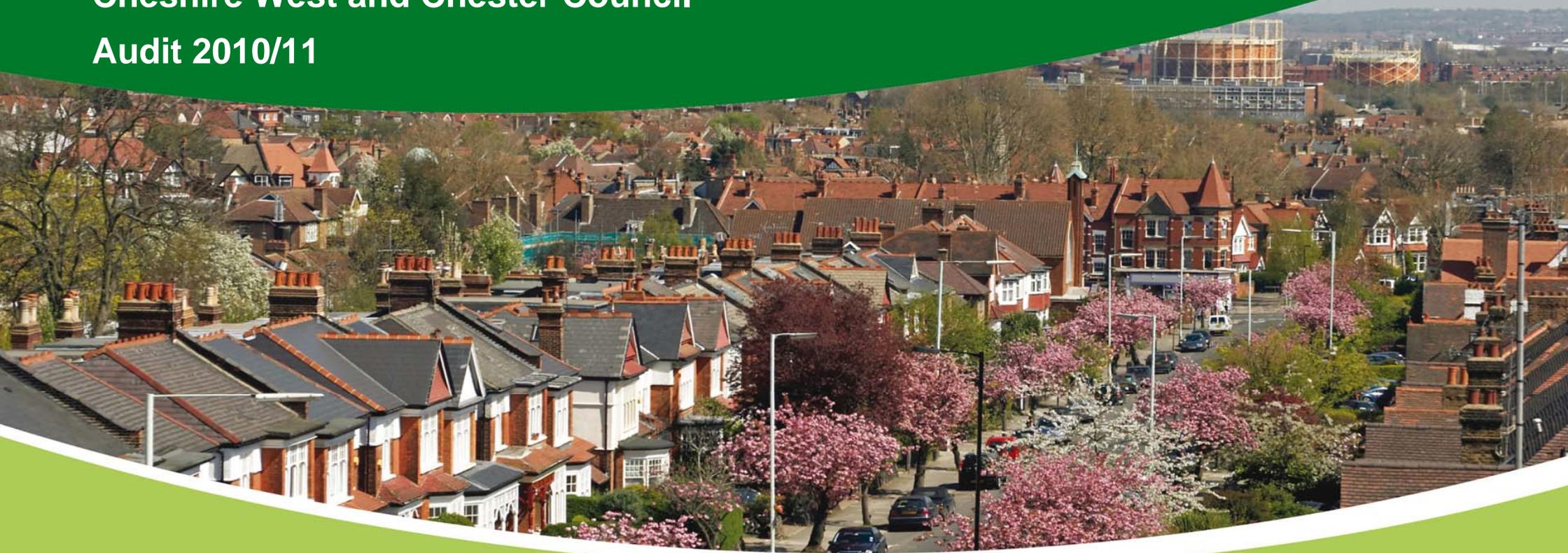


Annual governance report

Cheshire West and Chester Council

Audit 2010/11



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Key messages

This report summarises the findings from the 2010/11 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.

Audit opinion and financial statements

Once a small number of outstanding issues are cleared, I intend to issue an unqualified opinion on the Council's annual accounts for 2010/11. The draft accounts and associated working papers were of a good standard. The application of International Financial Reporting standards (IFRS), for the first time, was addressed effectively.

The financial statements have been amended to reclassify the following costs as exceptional items:

- pension costs of £111m; and
- council house valuation impairments of £55.5m.

The financial statements have also been amended to correct other, generally minor errors identified during the audit. Most of these related to incorrect classifications or disclosures.

I found one error of £7,854 in the allocation of expenditure between 2010/11 and 2011/12. I estimate that 2010/11 expenditure is understated by £916,000. The financial statements have not been amended. I also found unexplained differences between bank balances and weaknesses in the controls over access to the general ledger.

Once again, the Council's finance team did an excellent job in preparing good quality financial statements. The accounts and supporting working papers were ready for audit on 23 June 2011. This enabled me to start and finish my audit work earlier than initially planned.

Value for money

I intend to issue an unqualified conclusion stating that the Council has adequate arrangements to secure value for money. The Council is financially resilient and is achieving significant cost reductions by improving efficiency and productivity.

The Council has a track record of delivering significant savings. The Council is strengthening its budget monitoring arrangements in 2011/12 and has invested £19.8m to address service delivery pressures.

With continuing good financial management the Council should achieve its medium term savings target of £38.4m. The Council saved £53m in its first two years - £14m reinvested in services and the rest used to keep council tax levels low. Planned improvements to securing value for money should ensure that the already good performance in some areas is repeated across the Council.

It has strong leadership and its robust business challenge process encourages radical changes in how services are delivered. While the Council's safeguarding children arrangements are improving there is still a lot to do in 2011/12.

Before I complete my audit

I confirm to you my independence and the scope of my audit work

My report 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.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including Ethical Standard 1 (revised) - Integrity, Objectivity and Independence. I identified that there was a threat to independence of one member of my audit team as his sister works at a Council run school. I ensured that the individual was not involved in any audit work relating to the school. I discussed the threat and agreed the proposed safeguard with the Head of Finance. By applying this safeguard I was able to reduce this threat to an acceptably low level.

I ask you to confirm to me that you have approved the accounts and agree the letter of representation

I ask the Audit and Governance Committee to:

- consider the matters raised in the report before approving the financial statements;
- take note of the adjustments to the financial statements which are set out in this report (Appendix 3); and
- approve the letter of representation (draft included at Appendix 2), on behalf of the Council before you approve the accounts and I issue my opinion and VFM conclusion.

Financial statements

The Council's financial statements and annual governance statement are 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

The financial statements continue to be prepared to a good standard and contained fewer errors than last year.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements on 29 September 2011. My draft report is at Appendix 1. If any matters arise from the completion of outstanding work, I will report this to you verbally at the Audit and Governance Committee meeting on 28 September.

The Financial statements were ready for audit on 23 June. This was a good achievement particularly in view of the significant changes to accounting and financial reporting requirements this year. The Finance team also continue to provide excellent assistance for my audit team. As a result, my work was substantially complete by the end of August. This is significantly earlier than last year.

Errors in the financial statements

The draft financial statements contained two large classification errors. There was no impact on the General Fund and both errors have been corrected.

- For 2010/11 pension liabilities were calculated using the consumer price index rather than the retail price index for the first time. The reduction in value of £111m should have been shown in the comprehensive income and expenditure statement as an exceptional item.
- The value of the Council's housing stock fell by £55.5m. This was due to national changes in the basis for valuing houses. This reduction was incorrectly shown as Local Authority Housing expenditure instead of an exceptional item in the comprehensive income and expenditure statement.

My testing of expenditure at the year end identified a single payment of £7,854 relating to the financial year 2010/11 that had been coded to the following financial year in error. I have extrapolated the error over the whole population from which the payment was sampled. I estimate that 2010/11 expenditure is understated by £916,000. The Director of Resources has not adjusted the accounts as the value of the originating error is trivial and I cannot be certain of the value of the overall error. Another minor error of £0.3m relating to the incorrect classification of the value of a number of school playing fields has not been adjusted. Balances for

items such as debtors and creditors at 1 April 2009 have not been provided in the disclosure notes. A summary of all unadjusted errors and disclosures is provided at Appendix 4.

I identified several other, mainly minor adjustments that were needed. I do not wish to draw your attention to any of these. I have provided a list of all the adjustments, for information, at appendix 3.

Financial statements

Audit risks

I identified four key risks:

- Transition to International financial reporting standards;
- Property, plant and equipment valuations;
- Upgrade of the main financial system; and
- Access to the general ledger.

The significant audit risks that I identified during my audit were reported to the Audit and Governance Committee previously. Following my update report in June 2011, I identified a further significant risk. This relates to controls over access to the Council's main financial system (ORACLE).

My risk assessment considers aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures.

Key audit risk	Findings
<p>Transition to International financial reporting standards (IFRS)</p> <p>The transition to IFRS is complex requiring reconsideration of previous accounting disclosures and presenting a significant amount of new information in a new format. Failures to implement the requirements could lead to material misstatement in the financial statements.</p>	<p>The Finance team prepared well for the implementation of IFRS. Appropriate procedures and controls were implemented to enable the transition to be achieved in a timely and effective way. The Council prepared its restated 2009/10 accounts in early 2011.</p> <p>My detailed testing of the main financial statements for 2010/11 shows that they have been prepared in accordance with the standards. I am satisfied that the statements have not been materially misstated due to the implementation of IFRS.</p>
<p>Property, plant and equipment valuations</p> <p>Last year I reported weaknesses in the processes for valuing the Council's property. I also reported some significant errors in the value of properties included in the 2009/10 financial statements. Without improvement of controls and working practices, there was a risk that the property values included in the 2010/11 financial statements would be also be materially misstated.</p>	<p>Officers responded well to the issues raised at last year's audit. Improvements to processes and controls were put in place and monitored by the Asset Value Working Group, (set up during 2010/11). I reviewed the activity of the working group, the role of the Council's valuer and the valuations done in 2010/11.</p> <p>I did detailed testing of the valuation of your land, buildings and housing at 31 March 2011. Some minor issues arose from this testing – these are included in appendices 3 and 4.</p> <p>The basis for the valuation of land and buildings in 2010/11 is reasonable and the values in the financial statements are fairly presented.</p>

Upgrade of the main financial system

Oracle is the core financial system used by both Cheshire West and Chester and Cheshire East councils. It includes payroll, payments, income, procurement, budgeting and financial management. The councils upgraded to a new version, Oracle R12, in January 2011. I identified some key audit risks:

- potential loss / corruption of data during the upgrade;
- changes to the operation of key controls; and
- backlog in data processing leading to loss of information.

As part of my IT risk assessment I reviewed the Council's controls over the upgrade. I found that change management is generally well controlled and there are no weaknesses - compared to best practice. Officers put in place a wide range of procedures and controls to mitigate the risk around the upgrade, including:

- a Programme Board receiving weekly reports;
- appointing a test co-ordinator to manage end to end testing;
- four stages of user acceptance testing; and
- an Internal Audit review of the testing arrangements and the results of the tests.

I reviewed and tested these controls. I found the risks reduced to an appropriately low level.

The information held in the ledger itself was unaffected by the upgrade. I tested this assertion by comparing the closing trial balance for the old version of Oracle with the opening trail balance for Oracle R12. I did not identify any variances.

Access to the general ledger

I found weaknesses with access security controls during my IT risk assessment. Similar control issues were identified by Internal Audit in their IT health check. The main weaknesses relate to non-council staff, for example, agency staff and consultants being able to access the general ledger without effective controls being in place. This creates a risk of unauthorised entries being made in the general ledger and other key financial systems. It could lead to a material misstatement of the Council's accounts.

This finding was discussed with officers during the course of the audit. The Director of Resources has set out other key controls which are in place to help prevent and identify any incorrect or inappropriate entries to the ledger. Internal Audit has also done a review of Oracle user access processes and controls including detailed testing. The testing was designed to gain assurance that transactions undertaken by selected users were appropriately authorised and in accordance with Financial Procedure Rules.

I return to this issue later.

Financial statements

Weaknesses in internal control

I identified control weaknesses in three areas:

- controls over access to the general ledger;
- reconciliation of bank balances with the general ledger; and
- the reconciliation between the payables system and the general ledger.

These weaknesses are only those I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control.

Description of weakness:	Potential effect:	Management action:
<p>General ledger access controls</p> <p>Non-council staff have access to the general ledger without effective controls being in place.</p> <p>Non council staff includes agency staff and system development consultants.</p>	<p>Increases the risk of unauthorised and inappropriate entries being made in the general ledger and other key financial systems.</p>	<p>Internal Audit undertook a review of procedures and controls and performed detailed testing of selected users. They concluded that there was no fraudulent or unauthorised access to Oracle in 2010/11. I have reviewed Internal Audit's work and have gained the assurance I need for my audit purposes. A joint officer working group has been set up by the Council and Cheshire East Council to identify the actions required to improve controls.</p>
<p>Bank account reconciliations</p> <p>A total unexplained difference of £4,607 between the balances on two of the Council's bank accounts and the general ledger. I reported a similar weakness last year and also to the predecessor county council.</p>	<p>The unexplained balances could be masking more significant reconciliation issues with these accounts.</p>	<p>Finance officers are working through an action plan to identify the cause of the imbalances. The Director of Resources will make specific reference to this control weakness, in her letter of representation (Appendix 2).</p>

	<p>Payables system to ledger reconciliation</p> <p>The reconciliation of totals in the payables ledger to the general ledger is a key control. Full reconciliation of the payables ledger to the general ledger has not been possible as one of the key reports used in this process was not accurate at the year end.</p>	<p>Whilst there is no evidence that the accounts are misstated the level of assurance over the completeness of expenditure in the ledger is reduced</p>	<p>This issue was logged as a critical issue by the Oracle programme Board. Action has been taken to remedy the problem, the effectiveness of which is currently being tested.</p>
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I will follow up each of these areas as part of my 2011/12 audit work.

Financial statements

Quality of your financial statements

The quality of the Council's accounts is very good

The quality of the Council's financial statements is very good. The statements are quality reviewed by the Director of Resources and other senior finance staff before they go to the Audit and Governance Committee and before they are given to me to audit. This year the Council produced its accounts a week ahead of the 30 June deadline. This is also a good performance.

I have asked for a significant number of changes to be made to the financial statements. Apart from the two exceptional items these are mostly minor and presentational. Overall, the arrangements for preparing and publishing the financial statements and supporting my audit with working papers and explanations are excellent.

Other matters

Annual Governance Statement

The Authority's Annual Governance Statement meets CIPFA's requirements. The disclosures within it are consistent with the information we are aware of from our audit of the financial statements and other work.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. The draft letter of representation is attached at Appendix 2.

Value for money

I am required to conclude whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

Value for money

The Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has a track record of delivering significant savings. The Council is strengthening its budget monitoring arrangements in 2011/12 and has invested £19.8m to address service delivery pressures.

With continuing good financial management the Council should achieve its medium term savings target of £38.4m.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My findings and conclusion on each of the two areas specified in 2010/11 are below. I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Criteria	Findings
<p>1. Financial resilience</p> <p>The organisation has proper arrangements in place to secure financial resilience.</p> <p>Focus for 2010/11:</p> <p>The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.</p>	<p>The Council has good arrangements for financial governance, planning and control. It has done well to maintain a strong financial performance again this year - in the face of many challenges. Financial stability remains a key priority for the Council. Over the last two years good levels of reserves have been maintained. The general fund reserve was £24.6m at 31 March 2011.</p> <p>The Audit and Governance Committee is an important part of the Council's arrangements for ensuring good governance and financial control. The Committee has improved its effectiveness over the last year following the formation of the Audit Working Group. The recent changes in membership should help in further improving the challenge, by members, of audit and governance processes.</p> <p>The Council set a challenging budget for 2010/11. It included a savings target of £6.9m and a £2.1m reduction in area based grant. Against this background, the reported under spend of £200,000 at the year end was a good outcome. Under spending on contingencies and corporate budgets of around £10m balanced significant overspending on three directorate budgets – children and young people, adult social care and health and Community and Environment. The Council continued to monitor and challenge the budget pressures in these directorates throughout the year. However, It was not possible to contain expenditure within budget, mainly due to increases in service demand. A further investment of £19.8m is included in the 2011/12 budget to help address the</p>

Internal controls are effective.

The Council saved £53m in its first two years - £14m reinvested in

pressures.

In addition, the 2011/12 budget includes £28m of savings to be achieved through efficiency improvements and expenditure reductions to match loss of grant income. These savings are based on policy options considered during the budget setting process. The Council has learned from its experiences in the first two years and is strengthening budget monitoring in 2011/12. For example:

- more priority will be given to tracking delivery of planned savings; and
- the Corporate management team now monitors 16 key policy options on a monthly basis and all options on a quarterly basis.

In September 2011, £8.1m of savings were highlighted as being at risk of not being achieved or unlikely to be realised in 2011/12. The Director of Resources has taken this into account in projecting an overall under spending of £0.1m at 31 March 2012. Continued robust monitoring is needed to ensure that the non delivery of policy options does not impact adversely on the Council's financial position at the end of the year.

The medium term financial plan (MTFP) and strategy for 2011/12 to 2013/14 sets out how the Council will manage resources over the medium term. It projects a shortfall of £29m. It has recently been updated to reflect the outcome from the comprehensive spending review and now includes a savings target of £38.4m. The Council has a good record of delivering significant savings and with continued good financial management, the medium term savings target should be achievable. The MTFP acknowledges that in these difficult economic times the Council faces a higher risk to its financial health. The council also recognises the importance of effective balance sheet management, for example debt management, in these circumstances.

The Council's internal controls are effective. In my report last year, I indicated that Internal Audit's performance needed to improve in several areas. Good progress has been made in implementing the required improvements. I am satisfied that Internal Audit is now providing a valuable contribution to the maintenance and strengthening of internal controls. Internal Audit has not reported any significant control issues following the work performed during 2010/11.

2. Securing economy efficiency and effectiveness

The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

The Council has effective arrangements in place for prioritising resources and improving efficiency and productivity. It has strong leadership and a track record of delivering significant savings going back to when it was a shadow council in early 2009. The Council made savings of £53m in its first two years. As a result, £14m has been reinvested in services. The remainder has been used to maintain council tax levels. The savings flow from:

used to keep council tax levels low.

Planned improvements to securing value for money should ensure that the already good performance in some areas is repeated across the Council.

It has strong leadership and its robust business challenge process encourages radical changes in how services are delivered. While the Council's safeguarding children arrangements are improving there is still a lot to do in 2011/12.

Focus for 2010/11:

The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

- large scale redundancies,
- changes in how services are delivered; and
- better use of the Council's assets.

The approach to setting priorities and identifying and monitoring cost reductions is led by the Leader, Chief Executive and Director of Resources. It is supported by a good business challenge process. This process is now well established and encourages radical thinking and challenge of how services are delivered. In 2010/11 it challenged whether:

- services needed to be delivered;
- they could be delivered in some other way and at less cost; and
- there was scope for collaboration with partners.

Plans are in place to further develop the challenge process in 2011/12. Members also want a better understanding of how the budget is built up in future. For 2012/13, officers plan to brief member groups on how resource use is challenged and how resources are allocated to priorities through the budget process.

Achieving value for money (VFM) is one of the Council's corporate priorities and the Chief Executive has identified the need to ensure vfm is given sufficient priority at all levels of the Council. The Executive and corporate management team monitor performance regularly. Most effort is focused on poorer performing services. In 2010/11, 76% of performance measures improved compared with the previous year but only half of the directorate performance targets were met. New VFM profiles will be presented to the Council's new Public Accounts Scrutiny Panel in September 2011. These profiles will plot spending against performance and compare this with other similar authorities. This should further assist the Council in focusing on improving performance and achievement of VFM.

In its first year, the Council shared 32 services with Cheshire East Council. Most of these were transitional arrangements and have ceased. Around 10 longer term shared services will remain at the end of this year. The shared services have produced efficiency savings of £7m. Work in underway to develop a separate legal entity for ICT, HR and Finance and Occupational Health shared services. The aim is to enable greater collaboration with other local authorities to secure further efficiencies and operational improvements.. All shared services are planned to be reviewed to ensure that they are delivering best value for the Council.

During 2010/11, I reviewed the Council's decisions to sell County Hall and buy HQ. The opportunity to sell County Hall and buy HQ came much earlier than the

Council expected. The pressure to complete the negotiations with the University and HQ's developer influenced the decision making process. Both deals were negotiated over a short time scale. Taken together the decision making processes of the Council, and those of Cheshire East Council, followed a reasonable process. Overall I found that there was no clear evidence that the sale or purchase did not represent reasonable value for money for council tax payers, at least in the short term. The Council is implementing all the recommendations in my reports to ensure that the processes around options appraisal and supporting information are enhanced

The OFSTED report on safeguarding and looked after children (2010) identified many inadequacies in the service leaving some children at risk of significant harm. The report concluded that the capacity to improve safeguarding arrangements was inadequate. The Council responded quickly and effectively to the report's findings by working with Halton Borough Council to share senior officers and processes. The Safeguarding Improvement Board meets monthly and is carefully monitoring the delivery of the improvement plan. Progress is being made towards mitigating significant safeguarding risks. However, officers are aware that much work still needs to be done to reach a level of performance equivalent to best practice.

Report by exception

The Audit Commission requires me to report by exception where significant matters come to my attention, which I consider to be relevant to proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

There are no matters that I wish to draw to your attention.

Appendix 1 Independent auditor's report

Independent auditor's report to Members of Cheshire West and Chester Council

Opinion on the Authority accounting statements

I have audited the accounting statements of Cheshire West and Chester Council for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account, the Movement on the Housing Revenue Account Statement and 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 West and Chester Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Director of Resource's Responsibilities, the Director of Resources is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Cheshire West and Chester's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement 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 West and Chester Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Resources and auditor

As explained more fully in the Statement of the Director of Resources's Responsibilities, the Director of Resources is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword and the pension fund annual report to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword and the content of the annual report for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Cheshire West and Chester Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of Cheshire West and Chester Council and Cheshire Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Judith Tench
Officer of the Audit Commission

September 2011, 2nd Floor, Aspinall House, Aspinall Close, Middlebrook, Horwich, Bolton, BL6 6QQ

Appendix 2 – Letter of representation

Judith Tench
District Auditor
Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook, Horwich
Bolton, BL6 6QQ

Cheshire West and Chester Council - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Cheshire West and Chester Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Uncorrected misstatements

The effects of uncorrected financial statements misstatements are not material to the financial statements, either individually or in aggregate.

Supporting records

All relevant information and access to persons within the Council has 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 financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

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;
- 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; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. 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.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Specific representation - Bank reconciliations

In previous financial years there have been problems with the reconciliation of the bank accounts against recorded cash balances. Over the last couple of years these have been largely resolved through revised business processes and the majority of accounts are now reconciling reliably on a monthly basis. As at 31 March 2011 two bank accounts had small unreconciled balances. The unreconciled balance on the Council Fund have been investigated and resolved in the current year. There is still a small unreconciled balance on the Payments bank account and this continues to be investigated. This area continues to be closely monitored and a review of the cash management process is planned for 2011-12.

Related party transactions

I confirm that I have disclosed the identity of Cheshire West and Chester Council's related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of Cheshire West and Chester Council

I confirm that this letter has been discussed and agreed by the Audit and Governance Committee on behalf of the Council on 28 September 2011.

Julie Gill
Director of Resources

September 2011

Appendix 3 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

Adjusted misstatement	Nature of adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Short term accumulated compensated absences	Balance reclassified from provisions to short term creditors	-	-	8,401	8,401
Cash flow statement	Reclassifying amounts between headings in the cash flow statement. Adjustment for £417,000 only affected the cash flow statement.	-	-	-	-
Exceptional items	To show the impact of the change in calculating pension liabilities using CPI instead of RPI as an exceptional item.	111,097	111,097		
Exceptional items	To apportion the housing revenue account share of the change in calculating pension liabilities using CPI instead of RPI as an exceptional item.	2,520	2,520		

		Comprehensive income and expenditure statement		Balance sheet	
Exceptional items	To show the impact of the national changes in the basis for valuing houses	55,475	55,475		
Plant, property & equipment valuations	To reflect the late valuations received after the draft accounts were presented for audit	2,117	2,117	2,117	2,117
HRA - Housing subsidy payable	To correct subsidy payable following completion of the housing subsidy grant claim	454	454	454	454

I have also identified the following more significant disclosure errors which management have amended:

- Note 13 property, plant & equipment:
 - correction of useful asset lives
 - enhancements to capital commitments and revaluations disclosures
 - explanation for classification of certain HRA assets omitted
- Note 41 disclosure and analysis of movement in the liability for private finance initiative schemes omitted
- Note 46 IAS 19 has been amended to ensure consistency with actuarial valuation reports
- Note 47 contingent liabilities omitted reference to the Conway Centre
- Housing Revenue Account – various corrections and additional disclosures added
- Additional notes to the cash flow statement have been included, following late guidance issued after the accounts were produced
- Presentation of 2009/10 comparators for gross income and gross expenditure
- A small number of arithmetic errors and internal inconsistencies

Appendix 4 – Unadjusted misstatements

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.

Unadjusted misstatement	Nature of required adjustment	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000s	Cr £000s	Dr £000s	Cr £000s
Cash & cash equivalents	Reconciliation differences on bank accounts			5	
Property, plant & equipment	Reclassification between property, plant & equipment and investment properties relating to school playing fields			222	222
Expenditure	Extrapolated error for expenditure coded to incorrect year.	916			916

I have identified the following disclosure errors which management have not amended:

- 1 April 2009 balances for items such as debtors and creditors are not shown within the disclosure notes

Appendix 5 – Glossary

Annual governance statement

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

Audit closure certificate

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 financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my 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; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

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 based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

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

