

# Annual governance report

Cheshire West and Chester Council

Audit 2011/12



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# Key messages

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**This report summarises the findings from my 2011/12 audit of your financial statements. It also sets out the results of my work to assess your arrangements to secure value for money.**

## Financial statements

I have completed my audit and intend to issue an unqualified opinion on the Council's financial statements on 12 September 2012. The Council's finance team prepared the financial statements early, to a very good standard and provided excellent working papers and support for my audit team. This has enabled me to complete the audit early, nearly three weeks ahead of the statutory deadline. A small number of adjustments to the accounts are needed. These mainly relate to property valuations received after the financial statements were presented for audit in June 2012.

## Value for money (VFM)

I also intend to issue an unqualified conclusion stating that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council remains financially resilient and continuing financial stability is a key priority. The Council did well to keep its spending within £0.5m of the 2011/12 budget, including cost reductions of £28m. The General Fund Balance of £21.1m at 31 March 2012 should be sufficient to enable the Council to manage unforeseen financial pressures in the short to medium term. The Council has saved £82m in the first three years and with continued good financial management the savings target of a further £44m by 2015 should be achievable. The Council anticipated reductions of this size and plans are in place to manage the cuts and deliver more for less in the future. The Public Accounts Scrutiny Panel, introduced during 2011/12, now monitors and challenges financial performance. The Council also recognises the importance of effective balance sheet management, for example debt management, in these circumstances.

The Council has a good focus on value for money. Overall, performance improved with reduced spending in 2011/12. The Council is also receptive to new initiatives designed to improve value for money. For example, its Altogether Better programme will enable it to fundamentally transform the way services are provided in partnership with other bodies in West Cheshire. The Council has done well to improve its performance whilst achieving significant savings. But big challenges remain including providing good services with significantly reduced government funding in the future.

I plan to issue my certificate confirming the closure of the audit by 12 September 2012.

# Before I complete my audit

This report only includes matters of governance interest that have come to my attention during the audit. My audit is not designed to identify all matters that might be relevant to you.

## Independence

I 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 the independence of one member of my audit team. The nature of the threat and the action taken to reduce it to an acceptably low level is shown in Table 1.

Table 1: Threats and safeguards

Threat	Safeguard
A close relative of a member of my audit team works at a Council run school.	I ensured that my colleague was not involved in any audit work relating to the school at which the relative works. I have discussed the threat and safeguard with the Head of Finance.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Council during 2011/12.

## I ask the Audit and Governance Committee to:

- consider the matters raised in this report before approving the financial statements;
- note the adjustments to the financial statements included in this report (appendices 2);
- approve the letter of representation (draft attached at appendix 3), on behalf of the Council before I issue my opinion and VFM conclusion.

# Financial statements

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**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 adopting them.**

## Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements on 12 September 2012. My draft report is at Appendix 1.

## Corrected errors

I identified a small number of errors in the draft accounts and these have now been amended. The main adjustment relates to the valuation of Woodford Lodge School. The value of the school was not shown in the 2010/11 balance sheet because it became an academy school during the year. Due to the academy's change of plans, the school site has been released back to the Council as being surplus to needs. Although the asset has been correctly included in the 2011/12 balance sheet, the valuation method differs from that suggested by the Code of Practice on Local Authority Accounting. The Council has amended the accounts to show the school as a surplus asset and has provided additional notes to explain the reasons for the valuation methodology used. As the values involved are not significant in relation to my opinion on the accounts, I have accepted this treatment.

Details of the amendments made to the accounts and notes are shown in Appendix 2. A small number of other minor errors identified during the audit have been reported to the Head of Finance.

When the financial statements were approved by the Director of Resources in June 2012, work was still in progress to re-value heritage assets and council houses. The work is now complete and has resulted in the value of heritage assets and council houses being increased by £18.2m and £10.6m respectively. I have checked the re-valuations and there are no matters arising. The accounts have been amended to reflect these changes.

## Significant risks and my findings

In my Audit Plan (January 2012) and Audit Update Report (June 2012), I identified risks relevant to my audit of your financial statements. I report my findings against each of the main risks in Table 2.

Table 2: **Risks and findings**

Risk	Finding
<p><b>Heritage Assets</b></p> <p>Heritage Assets are reported on the balance sheet for the first time in 2011/12. A heritage asset is a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture. There is a risk that the Council may be unable to identify and account for all heritage assets.</p>	<p>The finance team put adequate processes in place to identify heritage assets. Some of the Council's historic buildings were re-valued by a specialist valuer after the financial statements were approved by the Director of Resources in June 2012. I have reviewed and tested the revised valuation of heritage assets and concluded that it is fairly stated.</p>
<p><b>Bank account reconciliations</b></p> <p>At 31 March 2011 there was a total unexplained difference of £4,607 between the balances on two of the Council's bank accounts and the general ledger. There was a continuing risk that bank accounts will not be reconciled at 31 March 2012.</p>	<p>The finance team has been working to resolve the bank reconciliation issues for several years. At 31 March 2012 all accounts were reconciled except for the payables account. The unexplained difference between the payables bank account and general ledger was £131. Since the accounts were approved in June 2012, the finance team has identified the reasons for the difference. This is an important step forward. The Director of Resources has agreed a work programme to fix system issues which caused the imbalance. I have tested the bank reconciliations, giving priority to the payables account, and gained assurance that they are accurately completed. The Director of Resources will provide some further assurance to support the payables bank account reconciliation in her letter of Representation (appendix 3).</p>

Risk	Finding
<p><b>Access to the general ledger</b></p> <p>Some staff have access to main financial systems without effective controls being in place. This increases the risk of unauthorised and inappropriate entries being made in the general ledger and other key financial systems.</p>	<p>There are multiple access privileges for some staff to main financial systems which reduces the effectiveness of segregation of duty controls. Progress was made by the Council in 2011/12 to improve access controls and further improvements have been made in 2012/13. Internal Audit has performed substantive testing in these risk areas and concluded that transactions have been processed correctly. I have reviewed and re-performed a small sample of Internal Audit's work to gain the assurance I need for my audit. Further work is needed to bring the risk of unauthorised access down to an acceptable level.</p>
<p><b>Accounting for different types of school</b></p> <p>Schools are managed through a variety of governance arrangements. The difference in those arrangements has implications for the accounting treatment. There is a risk the Council will incorrectly include or omit schools in its balance sheet.</p>	<p>CIPFA has acknowledged that there is uncertainty regarding the accounting treatment for certain types of school and has set up a review group to develop guidance for future years. The Council has not recognised voluntary aided, foundation or academy schools in its balance sheet. Note 3 to the accounts sets out the Council judgments in applying this particularly policy. I have accepted the treatment pending the outcome from CIPFA's work.</p>
<p><b>Reform of local authority housing finance</b></p> <p>The government reformed local authority housing finance by adopting a self-financing model from 1 April 2012. This replaces the Housing Revenue Account Subsidy System (HRASS). The new model was implemented through a one-off settlement payment to government to adjust the Council's housing debt to a level considered to be affordable from rental income. The settlement payment is based on the difference between the valuation of the stock and notional amount of debt currently supported through the HRASS. The settlement resulted in the Council taking on additional debt. Due to the complexity, magnitude and timing of the reforms there is a risk that the financial statements will be misstated.</p>	<p>The self financing model was implemented by the Council borrowing £91m to fund the settlement payment to government. My testing has confirmed that the repayment of £91m to government was made in March 2012 and the Council borrowed the same amount from the public Works Loans Board to fund the repayment. The repayment and new loan are accurately disclosed in the financial statements.</p>



Risk	Finding
<p><b>Valuation of Council houses</b></p> <p>Internal audit reported that the Council's housing stock has not been re-valued within the last five years as required by valuation guidance. This could result in significant misstatement to the valuation of council houses.</p>	<p>Following the issue of Internal Audit's report a full revaluation was done by the Council's valuation team and reported in August 2012. I have tested a sample of valuations and concluded that the valuation methodology was satisfactory and the amended value of council houses in the balance sheet is accurate.</p>

## Significant weaknesses in internal control

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. My responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice. I have tested the Council's controls only to the extent necessary for me to complete my audit. I am not expressing an opinion on the overall effectiveness of internal control and the weaknesses I have identified during the audit are only those that are relevant to preparing the financial statements.

I have identified two significant control weaknesses relating to:

- unreconciled payables bank accounts' and associated accounting issues in the payments system; and
- Multiple access privileges for some staff to main financial systems reducing the effectiveness of segregation of duty controls.

Both of these weaknesses were reported at last year's audit and are therefore included as audit risks in Table 2 above. I have explained in Table 2 how the Council has responded to these weaknesses and the action I took at my audit to reduce the risks to acceptably low levels. The Director of Resources is giving priority to resolving these control issues in 2012/13.

## Other matters

I am required to communicate to you significant findings from the audit and other matters that are important to your oversight of the Council's financial reporting process. The main matters are set out below.

### Quality of your financial statements

In previous years I have commented on the excellent quality of the financial statements, supporting working papers and engagement with my audit team. This high level of performance was maintained in 2011/12. The Council provided me with its financial statements on 18 June 2012 - a week



earlier than last year. This enabled me to substantially complete my work by 10 August 2012. This is early for a large unitary council and is a significant achievement for the finance team.

### **Annual Governance Statement**

The Council's Annual Governance Statement meets CIPFA's requirements. The disclosures within it are consistent with the information I am aware of from my audit of the financial statements and other work. I have observed an increase in the priority given to governance arrangements in 2011/12. This is reflected in the quality of the evidence provided by officers to support the assertions made in the governance statement.

### **Letter of representation**

Before I issue my opinion, auditing standards requires me to ask you and management for written representations about your financial statements and governance arrangements. The draft letter of representation is at Appendix 3.

### **Whole of Government Accounts**

Alongside my work on the financial statements, I also review and report to the National Audit Office on your Whole of Government Accounts return. I have completed this work and there are no issues to report.

# Value for money

**I am required to conclude whether the Council 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.**

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Commission. In my Audit Plan dated January 2012, I reported to you a small number of risks that were relevant to my conclusion. I have set out below my conclusion on the two criteria, including the findings of my work addressing each of the risks I identified.

I intend to issue an unqualified conclusion stating that the Council has proper arrangements to secure economy, efficiency and effectiveness in the use of its resources. I include my draft conclusion in Appendix 1.

Table 3: **Value for money conclusion criteria, audit risks and my findings**

Criteria	Risk	Findings
<p><b>1. Financial resilience</b> The organisation has proper arrangements in place to secure financial resilience. Focus for 2011/12: 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>Central Government funding for the Council is reducing by £25.5m over the next two years. The Council anticipated reductions of this size and plans are in place to manage the cuts and deliver more for less in the future. The 2011/12 budget includes savings of £28m. There is some risk of these savings not being achieved.</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 Balance was £21.1m at 31 March 2012.</p> <p>The Audit and Governance Committee is an important part of the Council's arrangements for ensuring good governance and financial control. Internal Audit led an assessment of the Committee's effectiveness in 2011/12. Internal Audit's report concludes that the Committee generally meets its responsibilities. Some areas for improvement have been identified for discussion with committee members.</p>

Criteria	Risk	Findings
		<p>The Council set a challenging budget for 2011/12 including cost reductions of £28m. Against this background, the reported under spend of £0.5m at the year end was a good outcome. Under spending on contingencies and corporate budgets of £4.3m broadly balanced overspending on directorate budgets. The Council continued to effectively monitor and challenge the budget pressures throughout the year. The Public Accounts Scrutiny Panel was involved in monitoring and challenging financial performance for the first time in 2011/12. An investment of £19.8m was included in the 2011/12 budget to help address the significant directorate overspends in 2010/11 and to recognise the need to invest in growth and priority areas even within the tight financial constraints the Council faced. This has helped the Council achieve the 2011/12 budget without significant over spending in directorates. Monitoring of planned savings has improved over the last year. 73% of the capital budget of £111m was spent in 2011/12, an improvement on the 60% achieved in the previous year.</p> <p>The medium term financial plan (MTFP) and strategy for 2011/12 to 2014/15 sets out how the Council will manage resources over the medium term. Savings of £44m will need to be made over the period of the plan. Most of the savings will need to be found from new proposals identified as part of budget consultation exercises. The plan shows that general reserves are estimated to fall to £17.3m by 31 March 2015 from the current level of £21.1m. The Council has a good record of delivering significant savings. £82m of savings were achieved in the three years since the Council was formed. 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.</p> <p>The Council's internal controls are effective. Internal Audit continues to provide a valuable contribution to the maintenance and strengthening of internal controls. Internal Audit has not reported any significant control issues following the work it performed during 2011/12.</p>

Criteria	Risk	Findings
<p><b>2. Securing economy efficiency and effectiveness</b></p> <p>The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.</p> <p>Focus for 2011/12:</p> <p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p>	<p>The Council and Cheshire East Borough Council are working together to develop separate legal entities for some shared services. The main challenges include:</p> <ul style="list-style-type: none"> <li>• extending collaboration to include other local authorities;</li> <li>• achieving efficiencies; and</li> <li>• resolving some of the operational difficulties with the current arrangements.</li> </ul> <p>Shared services are subject to scrutiny by the Council's newly formed Corporate Scrutiny Committee.</p>	<p>The Council continues to have effective arrangements in place for prioritising resources and improving efficiency and productivity. The Executive and Corporate Management Team are effective in setting priorities and identifying and monitoring cost reductions. Their task is well supported by the business challenge process which is now well established and encourages radical thinking and challenge of how services are delivered.</p> <p>Achieving value for money (VFM) is one of the Council's corporate priorities. The Executive and corporate management team monitor performance regularly. Performance was at or above target for 64% of indicators in 2011/12. This is a 10% improvement compared with the previous year. For 91% of indicators, performance equalled or was better than in 2010/11. The Council has done well to improve performance whilst achieving significant savings. But big challenges remain, for example, providing good services with significantly reduced government funding over the next few years, developing sustainable shared services, effectively integrating the Altogether Better project with mainstream council business and managing an ambitious capital programme.</p> <p>The Council has ten long standing shared service arrangements, the biggest being the human resources (HR), finance and information technology (ICT) shared service. Overall financial and operational performance for these services is generally satisfactory except for the ICT shared service which overspent its budget in 2011/12. The Council's share of the over spend was £0.7m. Action is being taken to significantly reduce the overspending in 2012/13. The Council is still working with Cheshire East Council to develop a single legal entity (SLE) for the HR, finance and ICT shared service but progress is slower than the Council would like. The Council continues to look for new shared service opportunities as part of its vision for future delivery of local services. The Public Accounts Scrutiny Panel will review plans for shared services at its meeting in September 2012.</p>

Criteria	Risk	Findings
	<p>The Council has a 10-year vision for how capital investment will change the landscape of the borough for the benefit of residents. Plans are well underway for a new theatre and other major developments in Chester and redevelopment in Northwich town centre. These are expensive, complex and high risk projects which need to be well project managed.</p>	<p>The public services partners in West Cheshire were selected to participate as a whole place community budget pilot, by government, in December 2011. The programme, called “Altogether Better”, began on 1 March 2012. The Council will submit its full business cases to government in October 2012. The programme provides a good opportunity for the partners across West Cheshire to transform public services in a planned and managed way. Members have been engaged in the development so far via three cross party work streams focused on governance, locality and neighbourhood working. Policy Development Boards have been reconstituted to reflect the Altogether Better themes. The programme fits well with the Council’s vision of putting the customer first, demonstrating best practice and innovation and delivering value for money.</p> <p>During 2010/11, I reviewed the Council’s decisions to sell County Hall and buy the Council’s new offices. In my reports I made several recommendations around the need for more transparency, better engagement and more detailed and open financial appraisal for large projects. The Council accepted all the recommendations in my reports. Internal Audit followed up on the implementation of the recommendations during 2011/12. The audit report concluded that generally good progress had been made. I have maintained an ongoing discussion with the Director of Resources and Monitoring Officer around the issues in the report to ensure the learning is carried forward. The Council has responded well to my recommendations and has made some important improvements, for example:</p> <ul style="list-style-type: none"> <li>• more detailed project appraisals and reporting for, example, the Barons Quay development and Sale of Backford Hall;</li> <li>• use of cross party working groups on high profile and sensitive projects, for example, the Northgate development; and</li> <li>• enabling scrutiny of significantly amended or failed projects, for example, the proposed cathedral development.</li> </ul>

Criteria	Risk	Findings
		<p>The Council developed its approach to the capital programme after significant consultation in the Autumn of 2010. The programme was developed in two parts - the delivery of core schemes to maintain existing asset base and a capital vision for the next ten years. A new project management system "verto" has been introduced to facilitate better management of the programme. A Major Projects Operations Board has been set up to oversee the planning and delivery of major projects. The Board governs all significant change and improvement projects. It makes recommendations to the corporate management team about approval of projects and ensures approved projects achieve value for money. The Board is supported by a Major Projects Operations Group which is planning to do valuable work, for example, reviewing major projects that have been delivered to learn lessons and identify best practice for use on future projects. Improvements have clearly been made in the last year to the governance arrangements for major projects. Ongoing priority needs to be given to ensuring that proposed projects link with Council objectives, are robustly prioritised and closely monitored.</p>

# Fees

## I reported my planned audit fee in the Audit Plan dated January 2012.

I will complete the audit within the planned fee.

Table 4: Fees

	Planned fee 2011/12 (£)	Expected fee 2011/12 (£)
Audit	338,555	338,555
Claims and returns	96,400	96,400
Non-audit work		
<b>Total</b>	<b>434,955</b>	<b>434,955</b>

The Audit Commission has paid a rebate of £27,084 to reflect internal efficiency savings, reducing the net amount payable to the Audit Commission, in respect of the audit fee, to £311,471.



# Appendix 1 – Draft independent auditor’s report

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## INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF CHESHIRE WEST AND CHESTER COUNCIL

### Opinion on the Authority financial statements

I have audited the financial statements of Cheshire West and Chester Council for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Responsibilities, the Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial 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 financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Cheshire West and Chester Council as at 31 March 2012 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## Opinion on other matters

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

## Matters on which I report by exception

I report to you if:

- in my opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- I issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- I designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- I exercise any other special powers of the auditor under the Audit Commission Act 1998.

I have nothing to report in these respects

## Opinion on the pension fund financial statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

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 Responsibilities, the Director of Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial 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 financial statements sufficient to give reasonable assurance that the financial 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 Director of Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial 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 financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012 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 for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

### **Respective responsibilities of the Authority and the auditor**

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.

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.

### **Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

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 2011, 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 2012.

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 2011, 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 ended 31 March 2012.

## Certificate

I certify that I have completed the audit of the accounts of Cheshire West and Chester Council 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 2012

Audit Commission, 2<sup>nd</sup> Floor, Aspinall House, Aspinall Close, Middlebrook, Horwich, Bolton. BL6 6QQ.

# Appendix 2 – Corrected errors

Management have made the following amendments to the financial statements during the audit.

		Statement of comprehensive income and expenditure		Balance sheet	
Item of account	Nature of error	Dr £'000s	Cr £'000s	Dr £'000s	Cr £'000s
Property, plant & Equipment	To reflect the late valuations received after the accounts were presented for audit in June 2012.	10,620	10,620	10,620	10,620
Heritage assets	To reflect the late valuations received after the accounts were presented for audit in June 2012.	18,171	18,171	18,171	18,171
Unusable reserves	Removal of revaluation reserve balances on disposed assets			689	689

Officers have agreed to make the following improvements to disclosures:

- Note 13 (property, plant and equipment) amended to show Woodford lodge school as a surplus asset. Additional notes also provided to explain the basis of the valuation for the School.
- Note 15 (investment properties) additional wording to make clear that the figure quoted of £.65m is the net transfer to assets held for sale.
- Note 17 (financial instruments) amended to correct the Fair Value of Financial Liabilities disclosures.
- Note 26 (Unusable reserves) amended to show the value of depreciation costs funded from the revaluation reserve (£1.2m) and the re-valued assets disposed of in year against the right line.
- Note 34 (Officers remuneration) additional notes provided to explain that the approach to recording the remuneration of the Head of ICT Shared Services is different to last year and comparators have been restated.

- Note 38 (Related party transactions) amended to provide further information on the Council's interests in companies and joint working arrangements.
- Note 46 (Contingent liabilities) amended to show the possible value of the contingent liability with Municipal Mutual Insurance.



# Appendix 3 – Draft letter of management representation

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## **Cheshire West and Chester Council – Audit for the year ended 31 March 2012**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other Council officers, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2012.

### **Compliance with the statutory authorities**

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Authority, for the completeness of the information provided to you, and for making accurate representations to you.

### **Supporting records**

I have made available all relevant information and access to persons within the Council for the purpose of your audit. I have properly reflected and recorded in the financial statements all the transactions undertaken by the Council.

### **Internal control**

I have communicated to you all deficiencies in internal control of which I am aware.

## **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 Council's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk 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 representations**

### Payables Bank Reconciliation

As at 31 March 2012 all bank accounts were reconciled except for the payables bank account. The unexplained difference between the payables bank account and the general ledger was £131. Since the accounts were approved in June 2012, the finance team has identified the reasons for the difference. The difference is caused by a number of system issues within the Accounts Payable system and a number of data fixes are required to resolve these. The list of data fixes has been prioritised and a project plan agreed for the fixes to be applied to the system.

### Woodford Lodge Valuation

The 2011-12 accounts include a valuation of £14.6m for Woodford Lodge School which has been treated as a surplus asset. The value of the school was nil within the 2010-11 accounts because at the time the future of the site was assumed to be tied up with the agreement to create the new Winsford Academy.

During 2011-12 the Dept for Education reconsidered all Academy funding agreements, by the time reapproval was ultimately given the Council/Academy had independently acted and all pupils had transferred to Verdin High. Woodford Lodge had been released back to the Council as a surplus asset. As such the Council considers that the future use of the site to be outside the scope of restrictions that would normally apply to sites which are vacated as a result of an Academy Agreement. The asset has therefore been valued based on its potential resale value. Although this valuation differs from that suggested by the Code of Practice on Local Authority Accounting, the Council considers this valuation to better reflect the potential value/usage of the site and additional disclosures have been included in the accounts to explain this. This position will be kept under review during 2012-13.

### **Related party transactions**

I confirm that I have disclosed the identity of the 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 requirements of the Code.

### **Subsequent events**

I have adjusted for or disclosed in the financial statements all relevant events subsequent to the date of the financial statements.

### **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 11 September 2102.

Signed

Name: Julie Gill

Position: Director of Resource

Date:

# Appendix 4 – Glossary

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## **Annual Audit Letter**

Letter issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

## **Annual Governance Report**

The auditor's report on matters arising from the audit of the financial statements presented to those charged with governance before the auditor issues their opinion and conclusion.

## **Annual Governance Statement**

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

## **Audit of the accounts**

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

## **Audited body**

A body to which the Audit Commission is responsible for appointing the external auditor.

## **Auditing Practices Board (APB)**

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

**Auditing standards**

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

**Auditor(s)**

Auditors appointed by the Audit Commission.

**Code (the)**

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

**Commission (the)**

The Audit Commission for Local Authorities and the National Health Service in England.

**Ethical Standards**

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

**Financial statements**

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

**Group accounts**

Consolidated financial statements of an Authority and its subsidiaries, associates and jointly controlled entities.

**Internal control**

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

## **Materiality**

The APB defines this concept as ‘an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor’s report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the financial statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative 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**

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

## **Those charged with governance**

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

## **Whole of Government Accounts**

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its financial statements.

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

