



INFRASTRUCTURE, GOVERNMENT  
AND HEALTHCARE

**Report to those  
charged with  
governance  
2008/09**

Cheltenham Borough  
Council

25 September 2009

AUDIT

# Content

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Ian Pennington, who is the engagement director to the Authority, telephone 02920 468087, email [ian.pennington@kpmg.co.uk](mailto:ian.pennington@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 236 4000, email [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk), who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Investigation Officer, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e-mail to: [complaints@audit-commission.gov.uk](mailto:complaints@audit-commission.gov.uk). Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421

## **Scope of this report**

The Audit Commission's Code of Audit Practice (the Code) requires us to summarise the work we have carried out to discharge our statutory audit responsibilities, together with any governance issues identified, and report to those charged with governance (in this case the Audit Committee) at the time they are considering the financial statements. We are also required to comply with International Standard on Auditing (ISA) 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of Cheltenham Borough Council's ('the Authority's') financial statements for the year ended 31 March 2009. In addition, this report summarises our assessment of the Authority's arrangements to secure value for money in its use of resources.

A summary of all reports we have issued in the year is set out in Appendix 6. Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

## **Summary of findings**

### *Use of Resources*

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and regularly reviewing their adequacy and effectiveness.

We are required to conclude whether the Authority has adequate arrangements in place to ensure effective use of its resources. This assessment draws on the findings from the new use of resources assessment framework introduced by the Audit Commission, along with other relevant work.

The new framework assesses local authorities against three themes: managing finances, governing the business and managing resources. The Authority has been assessed as generally performing well against these themes. Based on this, we have concluded that Cheltenham Borough Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our findings are detailed in Section two of this report and our proposed conclusion is set out in Appendix 1.

### *Financial statements*

The Authority is responsible for having in place effective systems of internal control which ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

This year's accounts audit has gone smoothly. The draft financial statements presented to the Audit Committee in June 2009 were of a very good standard and the Authority has worked on making these statements not just technically compliant, but also informative. We identified only trivial errors in the numbers presented, which represents a very good performance by your accounting team. Our audit identified few points of note and these related only to the presentation and disclosures of the financial statements. We are therefore proposing to issue an unqualified audit opinion.

Our findings are detailed in section three and our proposed opinion on the accounts is presented in Appendix 3.

## **Status of the audit**

At the date of this report our audit of the financial statements is substantially complete. On receiving your management representation letter (see Appendix 8), we expect to issue an unqualified opinion.

## **Declaration of independence and objectivity**

In relation to the audit of Cheltenham Borough Council for the year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Cheltenham Borough Council, its directors and senior management and its affiliates that may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 7 in accordance with ISA 260.

## Summary (continued)

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### Exercise of other powers

We have a duty under section 8 of the Audit Commission Act 1998 to consider whether, in the public interest, to report on any matter that comes to our attention in order for it to be brought to the attention of the public. In addition we have a range of other powers under the 1988 Act.

We have considered a number of issues raised with us by local electors during the year. To date none have required us to exercise these powers or issue a report in the public interest in 2008/09. However, we have received two objections from local electors relating to the Council's decision to take High Court action against its former Managing Director. We are currently considering these objections as part of our existing review into the decision making process behind this legal action.

### Certificate

We are required to certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice. If there are any circumstances under which we cannot issue a certificate, then we are required to report them to you and to issue a draft opinion on the financial statements.

Due to the unresolved objections outlined above, we are unable at present to issue our audit certificate. We will therefore issue a draft audit opinion and value for money conclusion, but withhold the audit certificate until our audit investigations into the objections have been concluded. We will report back to the Council's Audit Committee once this has been achieved and, at that point, will be able to issue the final audit opinion and VFM conclusion along with the audit certificate.

### Fees

Our fee for the main audit was originally agreed as £101,986 and has been contained within the amount originally agreed in our audit plan. However, the outturn fee will be higher due to the need to charge additional audit fee for the consideration of the various elector questions and objections we have received during the year. We will communicate the outturn fee to the Audit Committee once it is known.

### Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

# Use of resources

**We are required to conclude whether the Authority has adequate arrangements to ensure effective use of its resources. This assessment draws on the new use of resources assessment framework introduced by the Audit Commission.**

**The new framework assesses local authorities against three themes: managing finances, governing the business and managing resources. The Authority has been assessed as generally performing well against these themes.**

**Based on this, we have concluded that Cheltenham Borough Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

## Introduction

In our audit plan 2008/09 we outlined the work streams which we complete to assess the adequacy of your arrangements that ensure your resources are deployed effectively. Our conclusion is based on these work streams, our cumulative audit knowledge and any specific local risk work, as detailed below.

## The new use of resources assessment

The Audit Commission introduced a new assessment framework this year. This will assess how well organisations are delivering value for money and providing sustainable outcomes for local people. The new assessment forms part of the Comprehensive Area Assessment (CAA) framework. It defines use of resources in a broader way than previously, embracing the use of natural, physical and human resources. It also places a new emphasis on commissioning services for local people. This is wider than the previous assessment which focused on systems and processes. As a consequence it is not possible to make direct comparisons with the previous year's assessment.

The assessment is based on ten Key Lines of Enquiry (KLOEs) within three themes which cover:

- **Managing finances** - focusing on sound and strategic financial management;
- **Governing the business** - focusing on strategic commissioning and good governance; and
- **Managing resources** - focusing on the effective management of natural resources, assets and people.

The scoring of the themes ranges from one (performing inadequately) to four (performing exceptionally). The scores form the basis of our value for money conclusion with level two or above being sufficient for an unqualified conclusion.

## Findings

We have assessed the Authority as level two for the governing the business theme, which means the Authority is performing adequately in this area, and level 3 for the managing finances and managing resources themes, which means it is performing well in these areas. The table below shows our Use of Resources assessment across the three themes.

KLOE	Theme Score
1 – Managing finances	3
2 – Governing the business	2
3 – Managing resources	3

These are strong scores, indicating that the Authority has sound processes in place but has also been able to demonstrate good outcome and impact from these processes in a number of areas. Where level 2 has been awarded, processes are sound but strong outcomes haven't been sufficiently demonstrated.

The scores have been considered by KPMG's national quality control processes, through a local area based challenge process and nationally by the Audit Commission to ensure consistency in scoring with other auditors and authorities. The Audit Commission will confirm the Authority's overall UoR score by 19 October 2009.

## Use of resources (continued)

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### Use of resources (value for money) conclusion

We are required to give an annual conclusion on the adequacy of the Authority's arrangements to ensure effective use of its resources. This is known as the use of resources or value for money (VFM) conclusion.

For 2008/09, the KLOEs for the scored use of resources assessment directly map to the criteria for the VFM conclusion. The Audit Commission has specified which of the KLOEs will form the relevant criteria for the VFM conclusion and these are summarised in Appendix 2.

Based on our use of resources assessment we have concluded that the Authority has appropriate arrangements in place to ensure the economic, efficient and effective use of its resources.

Our proposed conclusion is set out in Appendix 1.

# Financial statements

The Authority is responsible for having effective systems of internal control to ensure the regularity and lawfulness of transactions, to maintain proper accounting records and to prepare financial statements that present fairly its financial position and its expenditure and income. It is also responsible for preparing and publishing an Annual Statement of Governance with its financial statements.

This year's accounts audit has gone smoothly. The draft financial statements presented to the Audit Committee in June 2009 were of a very good standard and the Authority has worked on making these statements not just technically compliant, but also informative. We identified only trivial errors in the numbers presented, which represents a very good performance by your accounting team. Our audit identified few points of note and these related only to the presentation and disclosures of the financial statements. We are therefore proposing to issue an unqualified audit opinion.

On receiving your management representation letter we expect to issue a draft unqualified opinion on 30 September 2009. We will also report that the wording of your Annual Statement of Governance accords with our understanding. Due to unresolved objections from local electors, we are unable at present to issue our audit certificate. We will therefore issue a draft audit opinion and value for money conclusion, but withhold the audit certificate until our audit investigations into the objections have been concluded. We will report back to the Council's Audit Committee once this has been achieved and, at that point, will be able to issue the audit certificate.

## Introduction

Our financial statements work can be split into four phases:

Stage	Tasks	Timing	Completed
Planning	<ul style="list-style-type: none"> <li>Updating our business understanding and risk assessment</li> <li>Assessing the organisational control environment</li> <li>Issuing our accounts audit protocol</li> </ul>	November 2008 to March 2009	✓
Control evaluation	<ul style="list-style-type: none"> <li>Reviewing the accounts production process</li> <li>Evaluating and testing controls over key financial systems</li> <li>Review of internal audit</li> </ul>	March to April 2009	✓
Substantive testing	<ul style="list-style-type: none"> <li>Planning and performing substantive work</li> <li>Evaluating the accounts production and audit process</li> <li>Concluding on critical accounting matters</li> <li>Identifying audit adjustments</li> <li>Reviewing the Annual Governance Statement</li> </ul>	July 2009 to September 2009	✓
Completion	<ul style="list-style-type: none"> <li>Declaring our independence and objectivity</li> <li>Obtaining management representations</li> <li>Reporting matters of governance interest</li> <li>Forming our audit opinion</li> </ul>	30 September 2009	-

## Financial statements (continued)

### Substantive testing – accounts production and audit process

As part of our use of resources assessment we assess the Authority's process for preparing the accounts and its support for an efficient audit. We considered these against three criteria:

Element	Commentary
Completeness and quality of draft accounts	The original draft accounts, approved in June 2009 and submitted for audit, were complete and of a good standard.
Quality of supporting working papers	Our Accounts Audit Protocol, which we issued in March 2009 and discussed with the Head of Financial Services, set out our working paper requirements for the audit. The quality of working papers was generally good.
Response to audit queries	The speed of response to audit queries was, on the whole, very good. The main contacts within the finance department were helpful and did their utmost to respond to queries in a timely fashion. One improvement opportunity would, however, be for Finance staff to co-ordinate their annual leave better to avoid staff who are key to supporting the audit being on holiday at the same time during the audit.

### Substantive testing – critical accounting matters

During our planning and interim audit work we highlighted what we considered to be the key accounting issues for the 2008/09 financial statements. The key findings arising are:

- Compliance with the 2008 Statement of Recommended Practice on Local Authority Accounting in the UK (the SORP): The Authority addressed all of these changes well during the accounts closedown process.
- Accounting estimates and valuations: The current economic climate introduces a number of risks for the financial statements, in particular for estimates and valuations. This includes the valuation of fixed assets at market value (such as investment properties and surplus assets) and the assessment of recoverability of debts to determine appropriate provisions. During the course of the audit no issues were identified with regards to accounting estimates and valuations.
- Impairment of Icelandic bank investments: The Authority has utilised the CIFPA guidance and has calculated the impairment using the specific tools issued by CIFPA. Management have decided not to amend the accounts for the latest estimate (September 2009) on the likely recoverability of the investments, as the difference is not material. We agree with this approach.

### Substantive testing – adjustments to the accounts

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We identified no mis-statements that were considered to be material, although the accounts were corrected to reflect the latest position for a VAT claim made by the Authority for a material amount which had been disclosed as a contingent asset, but which can now be accounted for as income and shown as a debtor because the Authority has received confirmation that the claim will be paid. We have identified only one unadjusted audit difference, which relates to the revision to the impairment of the Icelandic bank investment, as outlined above. This is summarised in Appendix 4. We also identified a number of presentational and disclosure points.

### Substantive testing – Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial

## Financial statements (continued)

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### Completion – management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have included a copy of the representation letter we require at Appendix 9, a draft of which has been provided to Finance staff. We require a signed copy of your management representations before we issue our audit opinion.

For 2008/09 we are seeking specific assurance that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

### Completion – other matters

ISA 260 requires us to communicate “audit matters of governance interest that arise from the audit of the financial statements” to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc); and
- other audit matters of governance interest.

There are no other matters which we wish to draw to your attention.

### Completion – opinion

On receiving your management representation letter we expect to issue an unqualified opinion on a draft basis, on 30 September 2009.

Our proposed opinion on the financial statements is presented in Appendix 3.

## Appendix 1: Proposed use of resources conclusion

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

#### Authority's Responsibilities

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

#### Auditor's Responsibilities

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

#### Conclusion

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

Ian Pennington (Senior Statutory Auditor)

**for and on behalf of KPMG LLP**

Statutory Auditor

Cardiff

30 September 2009

## Appendix 2: UoR criteria and link to VFM conclusion

The Audit Commission has specified which of the use of resources KLOEs form the criteria for the VFM conclusion. These criteria are summarised below.

Use of resources KLOE	Relevance to the Authority this year
<b>Managing finances</b>	
1.1 – Financial planning	✓
1.2 – Understanding costs and achieving efficiencies	✓
1.3 – Financial reporting	✓
<b>Governing the business</b>	
2.1 – Commissioning and procurement	✓
2.2 – Data quality and use of information	✓
2.3 – Good governance	✓
2.4 – Risk management and internal control	✓
<b>Managing resources</b>	
3.1 – Use of natural resources	X
3.2 – Strategic asset management	X
3.3 – Workforce planning	✓

## Appendix 3: Proposed audit report

### Independent auditors' report to the Members of Cheltenham Borough Council

#### Opinion on the accounting statements

We have audited the accounting statements and related notes of Cheltenham Borough Council and its Group for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Authority and Group Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Authority and Group Balance Sheet, the Authority and Group Statement of Total Recognised Gains and Losses, the authority and Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Account, the Statement of Movement on the Housing Revenue Account and the Collection Fund. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to Cheltenham Borough Council as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Cheltenham Borough Council as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Cheltenham Borough Council, as a body, for our audit work, for this report, or for the opinions we have formed.

#### Respective responsibilities of the Responsible Financial Officer and auditors

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

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

We report to you our opinion as to whether the accounting statements and related notes present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial position of the Group and its income and expenditure for the year.

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

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

#### Basis of audit opinion

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

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

## Appendix 3: Proposed audit report (continued)

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### Opinion

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

Ian Pennington (Senior Statutory Auditor)

**for and on behalf of KPMG LLP**

Statutory Auditor

Cardiff

30 September 2009

## Appendix 4: Audit differences

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to the Audit Committee. We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Uncorrected audit differences

Impact (£000s)					Basis of audit difference
Income and expenditure	Statement of Movement on GF Balance	Assets	Liabilities	Reserves	
200		(200)			<p><b>Adjustment to impairment of Icelandic bank investment</b></p> <p>Increase to the impairment charge on Icelandic bank investments held at 31 March 2009 as a result of the revised published guidance in LAAP Bulletin 82 (update no. 1) in September 2009.</p>

### Corrected differences

Impact (£000s)					Basis of audit difference
Income and expenditure	Statement of Movement on GF Balance	Assets	Liabilities	Reserves	
(1,208)		1,208			<p><b>Recognition of contingent asset</b></p> <p>The position of the VAT claim (Fleming case) has moved since the draft accounts were compiled. At draft it was estimated that reimbursement from HMRC would be £650,000, although this was shown as a contingent asset as receipt was not assured. By September the Council has had confirmation that £624,075.82 costs and £583,751.07 interest will be reimbursed by HMRC. On the basis that reimbursement is expected in 2009/10 and the Council believes it is certain, this has been reflected as income during 2008/09 and a debtor at 31 March 2009.</p>

### Disclosure note audit differences

Impact	Basis of audit difference
<b>Amendments to disclosure notes</b>	
<p><b>Disclosure of exceptional and extraordinary items</b></p> <p>The Council disclosed the costs associated with the legal case against its former Managing Director as an extraordinary item. However, under the definitions in accounting standards this should be more appropriately be disclosed as an exceptional item.</p>	To ensure compliance with SORP disclosure requirements.

**Appendix 4: Audit differences (continued)**

Impact	Basis of audit difference
<b>Amendments to disclosure notes</b>	
<p><b>Local Authority (goods and services) act 1970</b></p> <p>The expenditure noted for the GCC contract does not agree to that disclosed in note 3. Discussion with Finance confirmed that note 3 figures are accurate and note 6 expenditure is prior to adjustments for FRS17. Note 6 expenditure figures for current and prior year to be revised to meet note 3 disclosure.</p>	<p>To ensure internal consistency of information presented on the notes to the financial statements.</p>
<p><b>Building control account (note 7)</b></p> <p>This note should be produced with regard to the requirements of the Building (Local Authority Charges) Regulations 1998 (SI 1998 No 3129). The statutory requirement for charging schemes is that charges are fixed so that income will not be less than expenditure over a three year period projected from the start of a scheme – i.e. break even.</p> <p>The Council's chargeable element was in surplus in 2007/08 and is in deficit for 2008/09. The note does not set out how the Council meets (or plans to meet) the breakeven requirement.</p>	<p>To ensure compliance with the relevant regulations, so that the note sets out how the Council will ensure it achieves the statutory breakeven duty.</p>
<p><b>Members allowances (note 10)</b></p> <p>The members' allowances regulations include a requirement for authorities to publish annually amounts paid to each Member under such schemes for: basic allowances; special responsibility allowances; dependants' carers' allowances; travelling and subsistence allowances; and co-optees' allowances. Due to heightened public interest in the expenses of public servant and politicians, and to evidence compliance with the regulation, the Council should state where the members' allowance information is separately published in greater detail.</p>	<p>To enhance to information available to the public on the Council's Members allowances scheme and payments made under that scheme.</p>
<p><b>Officers emoluments (note 11)</b></p> <p>This note does not agree to supporting evidence for the £100k to £109.9k band. The note discloses one employee present within this band but supporting documentation confirms the employee actually falls within the £110k to £120k band.</p>	<p>To ensure accurate disclosure of officer emoluments.</p>
<p><b>Related party transactions (note 12)</b></p> <p>The note indicates that the required declaration forms had been received from only 52 of 53 Members. Discussion with Finance confirmed that the remaining declaration form was received after Council approved its draft accounts, so the note should be updated.</p>	<p>To ensure correct disclosure of full compliance with the Council's RTP declaration process.</p>
<p><b>Commitments under capital contracts (note 17)</b></p> <p>The SORP states that the capital contracts note should 'provide a list of the significant contracts for capital investment that the authority has entered into, their purpose, the approximate value and the period over which the investment will take place'. The note does not state the period over which the investment will take place. It is also noted that an overall total figure would be useful within the note.</p>	<p>To ensure compliance with SORP disclosure requirements.</p>
<p><b>Information on assets held (note 18)</b></p> <p>The council dwelling figures for prior year do not agree to the HRA housing stock note 2 by 33 properties. Note 18 should be updated for prior year council dwellings with the narrative from HRA note 2 repeated within note 18.</p>	<p>To ensure internal consistency of information presented on the notes to the financial statements.</p>

**Appendix 4: Audit differences (continued)**

Impact	Basis of audit difference
<b>Amendments to disclosure notes</b>	<b>Basis of audit difference</b>
<p><b>Provisions (note 30) and contingent liabilities (note 35)</b></p> <p>The provision for legal claims is solely in relation to the High Court's ruling that the Council should pay a proportion of the legal costs incurred by the Council's former Managing Director. The note estimates this as £350k. The former MD has since appealed the costs decision and is seeking to recover her legal costs in full from the Council. The Council is challenging this appeal, and at this point does not have any additional liability to recognise in excess of the original costs award. However, it should disclose the possible additional costs as a contingent liability in note 35. This would also impact the explanatory foreword narrative.</p>	<p>To ensure accurate disclosure of contingent liabilities.</p>
<p><b>Reserves (note 33)</b></p> <p>The reserves note balance as at 1st April 2008 does not directly agree to the prior year accounts due to prior year adjustments (e.g. the pensions reserve). It would be useful to show the opening balance, prior year adjustment and the restated balance to give the reader full understanding of the adjustments completed.</p>	<p>To provide more transparent information on the prior year adjustments affecting this note.</p>
<p><b>Retirement benefits (note 39)</b></p> <p>The net cost of services prior year figure of £2,002,000 does not agree to the subsequent table within the note or the actuary report (which both show the amount as £2,202,000). Update to the prior year figure is required.</p>	<p>To ensure correct disclosure of amounts.</p>
<p><b>HRA - income split</b></p> <p>Analytical review and discussion with Finance confirmed that cleansing charges were charged in rents for 2007/08 and are now included within charges for services and facilities, which has caused a variance between the respective years' figures. As there has been a change in approach, the prior year comparative should be restated to reflect the same approach in 2008/09.</p>	<p>To provide more meaningful year on year comparisons.</p>
<p><b>HRA - housing stock (note 2)</b></p> <p>The narrative below the note should be expanded to confirm the position of the demolitions (i.e. why the 33 units have not all been removed in 2008/09 and when they will be completed).</p>	<p>To complete the note and improve reader understanding.</p>
<p><b>Cash flow statement - Revenue Expenditure Funded from Capital Under Statute (REFFCUS)</b></p> <p>The Council has not followed LAAP bulletin 81 which states that REFFCUS should be classified in the cash flow statement as a revenue activity (as should grants and contributions used to fund it).</p>	<p>To comply with the disclosure requirements of LAAP bulletin 81.</p>
<p><b>General presentation and disclosure</b></p> <p>We also identified a number of other more minor changes which were discussed with management.</p>	<p>To ensure complete and accurate disclosure, and removal of typographical, grammar and formatting errors.</p>

# Appendix 5: Recommendations on Controls & Accounts

We have given each recommendation a risk rating (as explained below) and agreed what action management will need to take. We will follow up these recommendations next year.

Priority rating for recommendation		
<p><b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p> 	<p><b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> 	<p><b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> 

No.	Risk	Issue and recommendation	Management response	Officer and due date
<b>Financial statements audit</b>				
<b>Cash flow statement</b>				
		<i>Issue</i>		
1	● (two)	Due to the method by which the CFS is compiled (through a highly complex excel document with a significant number of sheets), we have been unable to fully map the CFS to the I&E. The Council was also unable to complete the task. We are therefore unable to confirm the completeness and validity of the CFS.	The Council has identified a requirement to re-write the cash flow spreadsheet for the 2009/10 accounts to support both the production of accounts for 2009/10 and in preparation for the potential implementation of a shared Enterprise Resource Planning (ERP) system.	Martyn Scull 30/03/10
		<i>Recommendation</i>		
		Review arrangements for producing the cash flow statement to ensure it is supported by a clear and full audit trail.		
<b>Procurement</b>				
		<i>Issue</i>		
2	● (one)	Discussion with the Procurement Manager and review of supporting documentation identified that not all contracts were let in accordance with the Council's Financial Regulations in 2008/09, and it could not be confirmed that all contracts were monitored effectively.	The Council will review the procurement controls to ensure they are fully embedded and working effectively.	Angela Cox 31/03/10
		<i>Recommendation</i>		
		Review procurement controls to ensure they are fully embedded and working effectively.		

## Appendix 6: Audit reports issued

A summary of the reports issued in the year to date is set out below.

Report	Date issued
Audit and Inspection Plan 2008/09	May 2008
Report to those charged with governance 2007/08	September 2008
Report to those charged with governance 2007/08 (update)	January 2009
Audit and Inspection Plan 2009/10	April 2009
Report to those charged with governance 2008/09	September 2009

## Appendix 7: Declaration of independence and objectivity

### Declaration of Independence and Objectivity 2008/09

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

*“Auditors and their staff should exercise their professional judgement and act independently of both the Audit Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body, which does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired”*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission’s *Annual Letter of Guidance and Standing Guidance* (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (‘Ethical Standards’).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor’s objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor’s network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor’s professional judgement, the auditor is independent and the auditor’s objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor’s objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner/Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG’s reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm’s required independence. KPMG’s policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual (‘the Manual’). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

## Appendix 7: Declaration of independence and objectivity (cont d)

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KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

### Auditor Declaration

In relation to the audit of the financial statements of Cheltenham Borough Council for the financial year ending 31 March 2009, we confirm that there were no relationships between KPMG LLP and Cheltenham Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

## Appendix 8: Draft management representation letter

Dear KPMG LLP,

We understand that auditing standards require you to obtain representations from management on certain matters material to your opinion. Accordingly we confirm to the best of our knowledge and belief, having made appropriate enquiries of other members of the Authority, the following representations given to you in connection with your audit of the financial statements for Cheltenham Borough Council for the year ended 31 March 2009.

All the accounting records have been made available to you for the purpose of your audit and the full effect of all the transactions undertaken by Cheltenham Borough Council has been properly reflected and recorded in the accounting records in accordance with agreements, including side agreements, amendments and oral agreements. All other records and related information, including minutes of all management, Council and Committee meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Authority and that we are not aware of any other such matters required to be disclosed in the financial statements, whether under FRS 8 or other requirements.

We confirm that we are not aware of any actual or potential non-compliance with laws and regulations that would have had a material effect on the ability of the Authority to conduct its business and therefore on the results and financial position to be disclosed in the financial statements for the year ended 31 March 2009.

We acknowledge that we are responsible for the fair presentation of the financial statements in accordance with the Local Government Statement of Recommended Practice ("SORP") and wider UK accounting standards. We have considered and approved the financial statements.

We confirm that we:

- understand that the term "fraud" includes misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Misstatements resulting from fraudulent financial reporting involve intentional misstatements or omissions of amount or disclosures in financial statements to deceive financial statement users. Misstatements resulting from misappropriation of assets involve the theft of an entity's assets, often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation;
- are responsible for the design and implementation of internal control to prevent and detect fraud and error;
- have disclosed to you our knowledge of fraud or suspected fraud affecting the Authority involving:
  - management;
  - employees who have significant roles in internal control; or
  - others where the fraud could have a material effect on the financial statements.
- have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, regulators or others; and
- have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We confirm that the presentation and disclosure of the fair value measurements of material assets and liabilities are in accordance with applicable reporting standards. The amounts disclosed represent our best estimate of fair value of assets and liabilities required to be disclosed by these standards. The measurement methods and significant assumptions used in determining fair value have been applied on a consistent basis, are reasonable and they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the Authority where relevant to the fair value measurements or disclosures.

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

- there is no significant pending or threatened litigation, other than that already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

## Appendix 8: Draft management representation letter (continued)

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With reference to the specific issues on which you have requested assurances from Members, we confirm that:

- For 2008/09 we consider that sufficient and appropriate consideration has been given to potential impairments of the assets included in the accounts in light of the current macro economic climate and that, where any such impairment has been identified, it is reflected accordingly in the accounts. This includes compliance with the accounting policy for periodic revaluation of assets (under FRS 15), as well as the need for management to undertake a review of assets to determine whether there is any impairment to their value in accordance with FRS 11.

We consider the effects of uncorrected financial statement misstatements summarised in the accompanying schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Finally, no additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those events already disclosed.

This letter was tabled at the meeting of the Audit Committee on 29<sup>th</sup> September 2009.

Yours faithfully

[Name of Executive Director signing letter on behalf of Cheltenham Borough Council]

On behalf of Cheltenham Borough Council