



GOVERNMENT

Report to those
charged with
governance

2007/08 Audit

Cheltenham Borough Council
9 January 2009

AUDIT

Content

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This report is addressed to the Council and has been prepared for the sole use of the Council. 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 lead to the Council (telephone: 029 2046 8072, email ian.pennington@kpmg.co.uk) who try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4063, email 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 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 Team, Nicholson House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SU or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.



Executive summary

Introduction

In our report to the Audit Committee in September 2008, we indicated that we were unable to issue our audit certificate or final audit opinion on the Council's 2007/08 financial statements because we had received a formal objection to the accounts from a member of the public. We have now completed our investigation into the issues raised by the objection and reported our conclusions to the objector and the Council. The objection process is therefore nearing its conclusion and consequently we are able to report to the Audit Committee on the final completion of our 2007/08 audit.

The delay caused by the objection process has meant that the Council's 2007/08 financial statements have been revised to reflect any post balance sheet events since last September, up to the conclusion of our audit. This involved the impact of the recent issues regarding Icelandic banks to be reflected in a disclosure note to the financial statements, as the Council held investment holdings with Icelandic banks as at 31 March 2008.

Purpose 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 that we have identified. We report to those charged with governance (in this case the Audit Committee) at the time you are considering the financial statements. We are also required to comply with an International Standard on Auditing (ISA260) which sets out our responsibilities for communicating with those charged with governance.

Our September 2008 interim ISA260 report included all the information we required to meet these requirements. This report has been prepared for presentation to the Audit Committee on 12 January 2009 and comments on the work that has taken place since then (the objection and the updating of the Council's accounts). It summarises our overall conclusions to support the subsequent issue of the final audit opinion, value for money conclusion and audit certificate. It also includes certain other information and disclosures for completeness, but some information has not been repeated because it has already been reported to the Audit Committee in September 2008.

A summary of all the reports we have issued in the year is set out in Appendix 4. Once we have finalised our opinions and conclusions we will prepare our Annual Audit and Inspection Letter jointly with your Audit Commission CAA Lead to close our audit.

Our opinions and conclusions

Use of resources

The Council 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. Our responsibility is to satisfy ourselves that you have in place proper arrangements by reviewing and, where appropriate, examining evidence that is relevant to your corporate performance and financial management arrangements and reporting on them.

We have concluded that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Our findings are detailed in the separate Use of Resources report which will also be presented to Audit Committee in January 2009. Our proposed conclusion is set out in Appendix 1.

Accounts and Annual Statement of Governance

The Council is responsible for putting in place 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.

On 29 September 2008 we issued an interim audit opinion on the Council's 2007/08 accounts, but indicated that we could not issue the final audit opinion until the objection process had been concluded. At that time we reported that we had identified no issues in the course of the audit that we consider to be material, and this remains the case. We therefore intend to issue our final audit opinion once the objection process has been concluded.

Our detailed findings were summarised in the September 2008 report and have not been repeated here. That report also highlighted one unadjusted audit difference in relation to HRA pension costs. The Council has since obtained the necessary documentation to support this item and therefore this item is no longer considered to be an unadjusted item.

Executive summary (continued)

There are no other matters required by auditing standards which we wish to draw to your attention. Appendix 3 provides an update on the Council's progress against the four recommendations which were contained in our September 2008.

On receiving your management representations letter (see Appendix 6) we expect to issue an unqualified audit opinion following the final conclusion of the objection (see below for further details). The wording of the proposed opinion is set out in Appendix 2.

Exercise of other powers

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

We received a formal objection to the Council's 2007/08 accounts from a local elector. The objector raised concerns about the lawfulness and value for money of expenditure incurred by the Council on the restoration of a building in a public park, its subsequent leasing to a community interest company (CIC) and the provision of an annual grant to the CIC. The objector requested that we exercise our powers as follows:

- to apply to the court under section 17(1) of the 1998 Act for a declaration that the items of accounts objected to are contrary to law; or
- if we conclude that these items are not unlawful, to issue a report in the public interest under section 8 of the 1998 Act and a recommendation under section 11(3) of the 1998 Act due to the Council's failure to provide value for money.

We undertook an investigation into the objector's concerns and issued our determination on the objection in December 2008. We did not find in favour of the objector and therefore will not be taking the formal audit action that was requested.

We must now observe a six week period in which the objector is able to appeal against our decision. The scope of any such appeal is limited to the decision not to apply for a declaration under section 17(1). It is not a general right of appeal against auditors' decisions on objections. The appeals period runs to the end of January 2009, and provided no appeal has been made we will issue our final audit opinion and certificate as soon as practicable thereafter. If the objector does appeal we will discuss what is required with Council officers.

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.

Subject to the above comments, the audit certificate will be issued once the objection appeals period has passed.

Declaration of independence and objectivity

In relation to the audit of the financial statements of Cheltenham Borough Council for the financial year ending 31 March 2008, we confirm that there were no relationships between KPMG LLP and the 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.

We have provided a detailed declaration in Appendix 5 in accordance with ISA 260.

Acknowledgement

We would like to take the opportunity to thank the Officers of Cheltenham Borough Council for the positive way they approached the audit process and the help they gave to our team throughout.

Appendix 1: Proposed use of resources conclusion

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 satisfy ourselves 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.

In 2007 the Authority's previous appointed auditor was required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report:

- certifying that he had done so;
- stating whether he believed that the plan had been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, 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 2008.

Best Value Performance Plan

The previous Audit Commission appointed auditor issued his statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 in December 2007. He did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

KPMG LLP
Chartered Accountants
Cardiff

xx February 2009

Appendix 2: Proposed audit report

Independent auditors' report to the Members of Cheltenham Borough Council

Opinion on the statement of accounts

We have audited the Authority and Group statement of accounts and related notes of Cheltenham Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The Authority and Group statement of accounts comprises the Explanatory Foreword, Authority and Group Income and Expenditure Account, the Authority Statement of the 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, the Collection Fund and the related notes. The statement of accounts has 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 auditors' 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 Section 151 Officer and auditor

The Section 151 Officer's responsibilities for preparing the statement of accounts in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the statement of accounts.

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

We report to you our opinion as to whether the Authority and Group statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- 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 statement of accounts. 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.

Basis of audit opinion

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

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

Opinion

In our opinion:

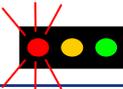
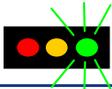
- The Authority statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended; and
- The Group statement of accounts presents fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Authority as at 31 March 2008 and its income and expenditure for the year then ended.

KPMG LLP
Chartered Accountants
Cardiff
xx February 2009

Appendix 3: Accounts recommendations – follow up

This appendix summarises the recommendations relating to the accounts production process made in the interim ISA260 report presented to Audit Committee in September 2008.

As part of our audit review up to the conclusion of the accounts objection, we have followed up the progress made in implementing the recommendations made. The table below details our findings:

Priority rating for performance improvement observations raised				
<p>Priority one: 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>Priority two: 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>Priority three: 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> 
Number	Risk	Issue and recommendation	Management response, responsible officer and due date	Position as at January 2009
1	● (two)	<p>Business Rates reconciliation to Valuation Office listings – full listing</p> <p><i>Issue</i></p> <p>Our audit of the reconciliation between the overall Valuation Office Rateable Value Listing and the Authority’s NNDR system (last completed as at 01.04.2005), identified a number of discrepancies within property categories. This has an impact on the level of relief granted when a property is void.</p> <p>Discussion with the Revenues Manager confirmed that the Authority had not reconciled the two lists for property category changes.</p> <p><i>Recommendation 1</i></p> <p>Review the property category changes required by the Valuation Office Rateable Value list 01.04.2005 to confirm the discrepancies do not have any financial impact on the NNDR3 return 2007/08.</p> <p>It is noted that post audit debrief with the Revenues Manager, this recommendation has been actioned.</p> <p><i>Recommendation 2</i></p> <p>Reconcile the Business Rates system to the 01.09.08 overall Valuation Office Rateable Value listing, for all changes required (including property category changes), to ensure the Business Rates system is up to date for all elements.</p>	<p>Recommendations 1 and 2 have been undertaken (Recommendation 2 as at 12.08.08).</p> <p>We will now undertake a full reconciliation once a year.</p> <p>Jayne Gilpin</p> <p>Completed</p>	<p>Implemented.</p> <p>Audit review of the NNDR control documents held by the Revenues Manager has confirmed the Business Rates system was reconciled to the 01.09.08 overall Valuation Office Rateable Value listing.</p> <p>Discussion with the Revenues Manager confirmed that the next full reconciliation is to be completed in January 2009, to ensure the Business Rates system is up to date prior to 2009/10 annual billing.</p>

Appendix 3: Accounts recommendations (continued)

Number	Risk	Issue and recommendation	Management response, responsible officer and due date	Position as at January 2009
2	● (two)	<p>Business Rates reconciliation to Valuation Office listings – regular changes</p> <p><i>Issue</i></p> <p>The Valuation Office issues changes to Business Rates notifications to local authorities on a fortnightly basis. The listing is used by the Authority to update the Business Rates system. The listing is then reconciled to the Business Rates system, to ensure agreement of the Authority total rateable value.</p> <p>Our audit of this process confirmed that the Authority has not been adequately processing property category changes notified by the Valuation Office.</p> <p>Property category types determine the level of void property relief allocated. Incorrect property categories within the Business Rates system may cause the Authority to over allocate void property relief, causing loss of Business Rates income.</p> <p><i>Recommendation</i></p> <p>Management should review property changes when completing any future fortnightly reconciliation between Valuation Office Rateable Value lists (fortnightly or overall listings) and the Authority Business Rates system. All reconciliations should be completed by an experienced Officer and reviewed by a separate Officer.</p>	<p>The recommendation has been implemented.</p> <p>Due to maternity leave absence, one officer will implement the changes on the valuation list and a sample review will be undertaken by another officer. The team leader will under take the review on her return.</p> <p>Jayne Gilpin</p> <p>Completed</p>	<p>Implemented.</p> <p>Review of the Authority reconciliation control records has confirmed that fortnightly reconciliations between Valuation Office Rateable Value lists and the Authority Business Rates system have been completed by an experienced Officer and reviewed by a separate Officer from October 2008 to December 2008. Specific scrutiny of property changes is evidenced through the reviewing Officer's signature.</p>
3	● (two)	<p>Delegated Section 151 Officer signatories</p> <p><i>Issue</i></p> <p>The Authority's formal documentation (including the Constitution and the Financial Rules) do not confirm delegated signatories for the Section 151 Officer in regards to grant claims or other matters.</p> <p><i>Recommendation</i></p> <p>Update the Financial Rules to include delegated signatories for the Section 151 Officer.</p>	<p>A full review of part 4 of the constitution, which includes Financial Rules, is underway.</p> <p>The Financial Rules and Part 3H (Employee Delegation Scheme) of the constitution will be updated to include delegated signatories for the Section 151 Officer.</p> <p>Mark Sheldon</p> <p>31 December 2008</p>	<p>In progress.</p> <p>Due to the Authority's restructure, the Constitution and Financial Rules have required a full review to ensure the documents are in line with the Authority's new structure.</p> <p>The Monitoring Officer and Section 151 Officer are currently completing this review and aim to complete by 31 March 2009.</p>
4	● (three)	<p>De minimis level for capital</p> <p><i>Issue</i></p> <p>The de minimis level for capitalisation of expenditure is disclosed as £10,000 within the financial statements. This limit is not confirmed through the Authority's Constitution or Financial Rules.</p> <p>There was no evidence (other than historical consistency) to confirm that the amount used within the financial statements was in line with Authority's policy.</p> <p><i>Recommendation</i></p> <p>Update the Financial Rules to include the de minimis level for capitalisation of expenditure.</p>	<p>As part of the review identified above, Financial Rules will be updated to include the de minimis level for capital expenditure.</p> <p>Mark Sheldon</p> <p>31 December 2008</p>	<p>In progress.</p> <p>Position in line with recommendation 3.</p>

Appendix 4: Audit reports

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

Report	Date issued
2007/08 Audit & Inspection Plan	July 2007
Interim audit report	June 2008
2008/09 Audit & Inspection Plan	June 2008
Report to those charged with governance (interim ISA260 report)	September 2008
Use of Resources	January 2009
Data Quality	January 2009
Report to those charged with governance (final ISA260 report)	January 2009

Appendix 5: Declaration of independence and objectivity

Declaration of Independence and Objectivity 2007/08

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 Auditing Practice Board’s 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 International Standard on Auditing 260 (ISA 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 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 5: Declaration of independence and objectivity (continued)

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 2008, 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 6: 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 Council, 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 2008.

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 and Board meetings, have been made available to you.

We confirm that we have disclosed all material related party transactions relevant to the Council 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 Council 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 2008.

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 Council 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 Council's financial statements communicated by employees, former employees, analysts, 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.

There are no uncorrected misstatements in the financial statements.

We confirm that the presentation and disclosure of the fair value measurements of material assets, liabilities and components of equity 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 Council 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 6: Draft management representation letter (continued)

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. We refer you to note 37 of the financial statements which deals with the Council's investments in Icelandic banks.

This letter was tabled at the meeting of the Audit Committee on 12 January 2009.

Yours faithfully

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

On behalf of the Council