

Annual Audit Letter

Cheshire East Borough Council

Audit 2009/10

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Summary

This report summarises my findings from the 2009/10 audit. My audit comprises two elements: the audit of your financial statements (pages 4 to 5 and my assessment of your arrangements to achieve value for money in your use of resources (pages 6 to 12). I have included only significant recommendations in this report. The Council has accepted these recommendations.

Audit opinion and financial statements

1 I assess whether the Council's accounting statements give a true and fair view of its financial position. I issued an audit report on 30 September 2010 including an unqualified opinion that the financial statements and all related notes give a true and fair view of the Council's financial position as at 31 March 2010.

Value for money

2 I assess whether the Council achieves economy, efficiency and effectiveness in using its resources, against criteria set by the Audit Commission. I concluded that the Council met the criteria in 2009/10 and issued an unqualified value for money conclusion on 30 September 2010.

Audit fees

3 I set out my fee proposals to you in my 2009/10 fee letter in April 2009. I set an initial audit fee of £401,925. I increased this by £5,950 in August 2010 to accommodate additional work responding to electors' questions on the sale of County Hall.

4 During my audit of your financial statements, I had to carry out additional work in a number of areas including:

- opening balances;
- agreeing amendments to the accounts; and
- detailed testing of transactions due to control failures in order to gain sufficient audit assurance.

5 This work was over and above the assumed level of work included within the initial fee and I raised an additional fee of £13,650 to cover this work.

Current and future challenges

6 The Council faces significant financial pressures from 2010/11 onwards brought on by the economic downturn and the consequent pressures on the public sector. The recent comprehensive spending review confirmed that local government funding will be cut by 7.1 per cent each year for the next four years. The precise impact on the Council will not be known until the Government makes its detailed funding announcement in December 2010. But it is clear that the Council will have to make tough spending decisions both in the short and medium term.

7 Since its formation on 1 April 2009, the Council's financial plans have taken account of likely significant reductions in funding. The Council reported efficiency savings of around £9.7 million in its first year of operation and included a savings target of £7.7 million in the 2010/11 budget. These savings have been identified through a robust challenge of spending plans and delivered through the implementation of service transformation programmes.

8 During the first half of 2010/11 the Council has experienced growing financial pressures particularly around increased demand for children and adults services. The mid year financial report identified additional budget pressures of £18.9 million. Officers have undertaken work to identify remedial actions which will reduce the forecast overspend for the year to £6.7 million. Work is continuing to identify further savings, including use of ear marked reserves, in order to achieve the in year target savings and maintain the general fund balance at £8 million.

9 In response to the increased financial pressures, the Council is reviewing its longer term financial plans to maintain robust finances while working towards achieving its strategic objectives. It seems likely that the financial pressures will continue to worsen at least in the short term and significant savings, currently estimated at £32 million, will be required over the following three years to achieve a balanced budget.

Financial systems and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the Council accounts for its stewardship of public funds. I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September, within the statutory target date.

Overall conclusion from the audit

10 I gave an unqualified audit opinion on the Council's financial statements on 30 September 2010.

11 The financial statements presented for audit were amended for five material errors and 22 non material errors. The adjusted errors increased the reported deficit to £66,639k (from £64,317k). In addition my audit identified five unadjusted misstatements which management declined to adjust.

12 The working papers and audit trail to support the accounts were adequate with some exceptions, most notably the audit trail to support opening balances. Officers responded very positively to requests for additional information. However, there is scope to significantly improve the quality and accuracy of the accounts presented for audit and the quality and timeliness of supporting working papers.

13 I am required to let the Council know about the amendments to the financial statements made as a result of my audit. These are set out in my Annual Governance Report which I presented to the Audit and Governance Committee on 30 September 2010.

Internal control

14 My review of the Council's Internal Audit arrangements found that good progress had been made in establishing an Internal Audit function which could provide independent and objective assurances to the Council on its control environment and the operation of its internal controls.

15 Internal Audit fully met seven of the eleven CIPFA standards and was implementing arrangements to meet the remaining four standards. Key areas for further development are performance management and a quality assurance programme.

16 My testing of key controls in the financial systems at both the Council and the shared service found that controls were generally operating as intended. I identified some weaknesses in the operation of the following controls around:

- payroll authorisation;
- bank reconciliations;
- income invoicing; and
- journals.

17 The findings from my audit of your financial statements and underlying financial systems were reported to the Audit & Governance Committee in November 2010.

International Financial Reporting Standards

18 The Council will prepare financial statements based on International Financial Reporting Standards (IFRS) for the first time in 2010/11. The introduction of IFRS raises significant challenges for local authorities. Disclosure requirements will be much greater under IFRS than under previous rules and the burden will be particularly large in the first year.

19 Internal Audit carried out a review of the Council's readiness for International Financial Reporting Standards (IFRS) during the first half of 2010/11. It found that while there was an IFRS implementation plan in place, there had been significant slippage due to closure of accounts, staff shortages and delays by managers providing information.

20 The Borough Treasurer is pulling together detailed plans and timetables for the restatement exercise. The 2009/10 experiences around the opening balances exercise should provide useful lessons to help officers in preparing and implementing their detailed plans. The key technical areas to be addressed are:

- asset valuations, including an assessment of asset lives;
- identification of leases and other lease type arrangements;
- detailed information to support the calculation of employee benefits; and
- impact of group accounting on shared service arrangements.

21 Officers expect to produce the restated 2009/10 balance by the end of January 2011. I plan to complete an early review of the re-stated balances, operating costs and notes to confirm they are in line with the guidance, before the end of March 2011.

Recommendation

R1 Ensure that sufficient capacity and priority is given to the implementation of IFRS to meet the required deadlines.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money. I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

22 At the end of May 2010, the Audit Commission wrote to the Chief Executive to tell her that following the government's announcement, work on Comprehensive Area Assessment would cease with immediate effect and the Commission would no longer issue scores for its use of resources assessments.

23 I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

24 I report the significant findings from the work I have carried out to support the VFM conclusion.

VFM conclusion

25 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission (VFM arrangements). I issued an unqualified conclusion on 30 September 2010 stating that the Council has satisfactory VFM arrangements.

26 I have set out the specified criteria in the table below and my summary findings follow in paragraphs 6 to 16.

Criteria	Adequate arrangements?
Managing finances	
Planning for financial health	Yes
Understanding costs and achieving efficiencies	Yes
Financial reporting	Yes
Governing the business	
Commissioning and procurement	Yes
Use of information	Yes
Good governance	Yes
Risk management and internal control	Yes
Managing resources	
Strategic asset management	Yes
Workforce	Yes

27 My assessment was on the Council's first operational year following local government re-organisation in Cheshire in 2009. The Council made good progress in developing its arrangements for securing value for money during its first year. Of necessity, some of these arrangements were based on interim strategies and inherited priorities while the Council worked to develop its longer term plans. The Council succeeded in delivering a number of significant outcomes and is well placed to build on this work by consolidating its arrangements.

Managing finances

28 Since its inception on 1 April 2009 the Council has worked hard to develop its strategic performance management and financial planning arrangements. The Council used interim plans (based on inherited priorities from predecessor bodies) to set its direction for the year while it put longer term strategic plans in place following consultation with stakeholders and formal service reviews.

29 Budget setting is effective and spending was managed within overall budgets through:

- a robust budget monitoring approach;
- challenges around managing service demands; and
- use of reserves.

30 The Council has a robust approach to understanding its costs. All services underwent a challenge panel where costs and performance were reviewed. This process enabled the Council to identify areas of high costs and challenge services to identify measures to bring budgets back into balance and determine investment priorities. The Council successfully delivered efficiency savings of £9.7 million in year through a range of mechanisms including service redesign, shared services, and procurement and transformation projects.

31 The Council adopted a strategic approach to financial reporting and monitoring which concentrated on managing the budget at a fairly high level and focussed on the identification and management of cost pressures and delivery of planned savings. The Council plans to strengthen its arrangements by integrating financial and performance information in reports to Cabinet and more closely aligning service reporting to its revised structure.

Governing the business

32 For 2009/10, the Council set out its ambitions and strategic priorities in a Corporate Plan based on an Interim Sustainable Community Strategy. It established a framework for local consultation through the seven Local Area Partnerships. These partnership arrangements are still developing and while a draft governance protocol for the Local Strategic Partnership is in place, governance arrangements for all other identified partnerships have yet to be formally documented.

33 Corporate procurement arrangements have developed well over the last year. There is a procurement strategy in place with a three year planning cycle for procurement activity within the Council. However, the lack of a long term sustainable community strategy means that key priorities and actions for future service delivery are still to be agreed. The Council made use of a variety of shared service arrangements to secure good levels of service and efficiencies (£10m to date).

34 After a slow start, the Council implemented a data quality and performance management framework. The framework, based on the national indicator sets, is supported by more detailed and better developed performance management arrangements at service levels. However performance management within the Local Strategic Partnership is limited and data protocols are not yet in place. The Council is working with its partners to improve the data it uses. The Council has effective arrangements in place to ensure data security and compliance with statutory requirements and achieved two major security accreditations: the Government Connect Code of Connection and N3 Code of Connection.

35 The Council's systems of internal control are generally sound and its Risk Management Strategy provides a framework for managing strategic, operational and partnership risks. Members are involved in the identification and management of strategic risks.

Managing resources

36 The Council put high level interim asset management plans in place for the year. This approach allowed the Council to focus its activities on those areas fundamental to its establishment and day to day operations. As a result, the Council achieved a number of significant outcomes including the development of a single asset database alongside a property maintenance plan including £6 million investment. It also relocated over 1,000 staff from a number of locations across Cheshire and consolidated them at three main sites.

37 Similarly, the Council developed interim plans for managing its staff resources while work started on a long term three year Workforce Strategy. The Council again achieved a number of significant outcomes including the

- transfer of over 8,000 staff to the new authority;
- development of a shared HR service;
- relocation of over 1,000 staff
- delivery of staffing reductions, and
- improvement in sickness absence levels.

Risk Based performance reviews

38 To support my assessment, I undertook a review of the sale of County Hall and a brief review of shared services with Cheshire West & Chester Council. My conclusions from these reviews are as follows.

Sale of County Hall

39 Some properties owned by the Cheshire authorities, prior to local government reorganisation, were transferred into the joint ownership of the Council and Cheshire West & Chester Council. County Hall in Chester was one such property. Chester University expressed an interest in acquiring County Hall from the two new councils in May 2009. Between May and October 2009, they negotiated the sale of County Hall to Chester University.

40 During this time, I received correspondence from a number of electors expressing concern at how this transaction was being managed. Concerns were expressed around the apparent lack of public consultation, perceived absence of proper option appraisals, and overall value for money. There had also been substantial coverage in the local press. In view of the exceptional and significant nature of the transaction, I have reviewed it to ensure that value for money has been secured.

41 The sale of County Hall was one of the first high profile decisions taken by both councils. It provided them with the opportunity to review their accommodation strategies. For Cheshire East it also presented the choice to reduce the Council's ongoing liability for the building and obtain a significant income benefit at an early stage.

42 My review of the sale of County Hall is almost complete. I expect to agree the final report with officers of both Cheshire East Council and Cheshire West and Chester Council in early January 2011.

Shared services

43 One of the central planks of re-organisation was to realise cost and efficiency savings. Cheshire East Council in conjunction with Cheshire West & Chester Council set up 29 shared services in 2009/10. Some of these operations were intended as short term transition arrangements to ensure service continuity during the first and second years of the new councils' operation. For a smaller number of services, longer term arrangements were planned to deliver on-going cost and efficiency savings.

44 The councils have a clear vision for shared services outlined in business plans which are overseen by a Joint Operating Board comprising senior officers from both councils. Shared services are managed through service liaison meetings between officers and shared service managers. Each shared service has a business plan which outlines key cost and performance data and targets for the coming year. The HR and Finance shared service was benchmarked to gain an understanding of relative costs.

45 Performance management arrangements for shared services are developing but could be strengthened through better quality performance monitoring data and broadening the range of performance measures for each shared service.

46 Significant efficiency savings were achieved in year through the use of shared services. Officers recognise that there is scope for further savings through streamlining and standardising shared service processes and arrangements.

47 The Councils are currently reviewing all the arrangements to decide which should now be split and which should be further developed. For the long term shared services, the Councils are proposing to:

- create a trading company to generate income and deliver those services which already have a sound customer base and a record of trading in a competitive market, for example, the Occupational Health service;
- create a collaborative company to deliver the majority of functions in the Human Resource, Finance and ICT shared services and partner with other public sector organisations; and
- transfer services from the collaborative company to the trading company as and when they become competitive and the partners agree that this is appropriate.

Housing Benefits inspection

48 The Council's Benefits Service inspection report was published in October 2010. Inspectors conclude that the Benefits Service (the Service) provided to customers by Cheshire East Council is 'fair' with 'promising' prospects for improvement.

49 The Service was created by the merger of three former district council benefits services in April 2009. This presented a range of challenges to the Council and the Service. The delay in moving to a single benefit processing system has hindered full integration and different working practices continue across the Council. The level and quality of advice about benefits is also variable.

50 The Service does not have a good understanding of how long customers wait to be seen or for their telephone call to be answered. This makes it difficult to target improvements. Some customers experience lengthy delays with their claims. In 2009/10, the time taken to deal with new claims was 22.4 days. But this slipped to 31.2 days in early 2010/11. A backlog of work has built up which is proving difficult to clear.

51 Support for local people to get the help they are entitled to is mixed. In 2009/10 the Service ran several successful benefit take-up initiatives. These are continuing in 2010/11. But, customers who ask for a decision on their claim to be looked at again, or appeal, are experiencing delays.

52 Overall the Service delivers value for money for local people. Substantial savings were made in the first year as a result of reorganisation. The cost of providing the Service is below average. But performance needs to improve in some important areas eg recovery of overpaid benefit.

53 The Service's track record of improvement in areas that customers notice most is improving. The 2009 customer survey shows high levels of satisfaction.

54 The Service has effective leadership. The Service has a clear vision with overall links to wider priorities. The continuing investment in ICT will help deliver improvements for customers. Staff development is progressing well with an effective programme of training and evaluation in place.

55 Service planning is satisfactory and arrangements are in place for the switch over to a single processing system in December 2010. But delays in procuring the new system are hampering the overall progress the Service can make. The lack of progress in clearing a backlog of work, combined with the introduction of the new ICT system, present a risk that customers will continue to experience avoidable delays.

56 The Service works well with its partners and this has benefited local people. For example through joint benefit take-up initiatives and registered housing providers receiving and verifying claims on behalf of the Service.

57 There are good arrangements in place for checking assessments before paying benefit, and dealing with benefit fraud. Performance is reported and discussed by service managers, but there are some gaps in performance information meaning managers do not have a complete view of service delivery. Effective scrutiny arrangements at a corporate level are not in place. The Council is seeking to tackle this.

Approach to local value for money work from 2010/11

58 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

59 My work will be based on a reduced number of reporting criteria, specified by the Commission, concentrating on:

- securing financial resilience; and
- prioritising resources within tighter budgets.

60 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

Current and future challenges

Financial challenges

61 The last few years have seen the United Kingdom enter a significant economic recession on the back of a global economic crisis. The effect locally, is an increasing demand for some public services at a time of when central government funding is falling. The recent comprehensive spending review (CSR) confirmed that funding for local authorities will fall by 7.1 per cent each year, in real terms, over the next four years.

62 The Council's medium term financial strategy, approved in February 2010, outlined the Council's plans to deliver a balanced budget for the next three years and included targets for significant levels of recurrent savings over that period. During the first half of 2010/11 the Council has experienced growing financial pressures particularly around increased demand for children and adults services. The mid year financial report identified underlying budget pressures of £18.9 million. Officers have undertaken work to identify remedial actions which will reduce the forecast overspend for the year to £6.7 million. Work is continuing to identify further savings, including use of ear marked reserves, in order to achieve the in year target savings and maintain the general fund balance at £8 million.

63 The impact of the recession and the CSR will present a challenge for the Council for the coming years in preserving services to local people, keeping a strong financial position and delivering value for money. Officers are currently working out the full implications of the CSR as part of the update of the Council's medium term financial strategy for 2011/12 onwards. Early indications are that the impact will be significant. Assuming a 0 per cent council tax increase and reductions in grants of approximately £14 million over the next three years, the Council will need to deliver £32.5 million in savings during that time. Delivering the 2010/11 planned savings recurrently will be key in managing the Council's financial position over the medium term.

64 The Local Government Finance settlement is expected in early December and will provide the detailed information on which the Council can base its future financial plans.

Closing remarks

65 I have discussed and agreed this letter with the Chief Executive and the Borough Treasurer. I will present this letter at the Audit & Governance Committee on 25 January 2011 and will provide copies to all cabinet members.

66 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Audit plan	7 January 2010
Annual Governance Report	29 September 2010
Auditor's report giving an opinion on the financial statements	30 September 2010
Final accounts memorandum	5 November 2010
Annual Audit Letter	28 November 2010

67 The Council has taken a positive and helpful approach to our audit. I wish to thank the Cheshire East Council staff for their support and cooperation during the audit.

Future audit arrangements

68 In August 2010, the Secretary of State for Communities and Local Government announced the proposed abolition of the Audit Commission and the transfer of the audit practice to the private sector. The proposed abolition will be from 2012/13 at the earliest and is subject to the passage of legislation.

69 Arrangements for the audit of local government bodies from 2012/13 onwards will be clarified when the government publish their white paper on the future of public audit. This is expected in early 2011.

70 My priority is to ensure our professional standards and commitment are maintained for the 2010/11 and 2011/12 audits. You will experience no deterioration in customer service and quality.

71 We are currently working on a proposal to develop an independent audit practice to continue beyond the abolition of the Audit Commission. Options available to us include a potential mutualisation or buy-out. Whatever the governance model that we adopt, we remain committed to providing excellent services to our existing clients, seeking new opportunities to improve financial management and reporting and helping the sector achieve better value for money.

Judith Tench
District Auditor
November 2010

Appendix 1 Audit fees

	Actual	Proposed	Variance
Financial statements and annual governance statement	£205k	£224.6K	£19.6k
Value for money	£197k	£197k	nil
Total audit fees	£402k	£421.6k	£19.6k
Non-audit work	nil	nil	nil
Total	£402k	£421.6k	£19.6k

I set a fee of £401,925 for the audit in April 2009. During the audit, we had to carry out additional work on opening balances, agreeing amendments to the accounts, and detailed testing of transactions due to control failures in order to gain sufficient audit assurance to issue an unqualified audit opinion. The cost of this work was £13.6k.

In addition I received several questions during the year including questions about the sale of County Hall. The cost of the additional work needed to respond to these questions and report to the Council was £6k.

The additional fees were discussed with the Borough Treasurer and reported to you at the September and November Audit & Governance Committees.

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council on the extent to which it complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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- any third party.



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