

Progress report

March 2011

Cheshire East Borough Council

Audit 2010/11

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.

Contents

Progress summary	2
Giving the audit opinion	3
Value for Money conclusion	5
Appendix 1 Progress to date	6
Appendix 2 Risk assessment	7
Appendix 3 Advisory services	8
Managing with less	8
Performance challenge	8
Productive partnerships	9
Appendix 4 Members resources	10
Audit Commission information for members	10
Upcoming reports	10
Published reports	12
International Financial Reporting Standards (IFRS)	15

Progress summary

1 The 2010/11 Audit Plan, presented to the Audit and Governance Committee in January 2011 set out the work I propose to undertake in order to be able to give an opinion on your financial statements and to support my Value for Money conclusion. The proposed programme, including progress to date is set out in appendix 1.

2 The Plan was based on my assessment of risk which I am required to update during the course of the audit and report any changes to you along with any proposed changes to the audit fee. My updated risk assessment is set out in appendix 2. At this stage I have not identified any new risks.

Opinion work

3 Work is on track to update our knowledge of the design and operation of your financial systems and testing of key controls. We have met with internal audit to discuss potential areas where we may be able to place reliance their work. We have agreed to seek to place reliance on internal audit work in the following areas:

- controls testing at Cheshire East and Shared Services; and
- assurance work on systems implementation and upgrade for revenues and benefits and main financial ledgers.

I will update the Committee with progress in this area over the next three months.

4 The audit team has met with the Finance team to discuss the changes to the audit approach, particularly in relation to accounting estimates and related party transactions. Work early substantive testing of material journals has been carried out in order to reduce the amount of detailed testing required during the accounts audit visit.

5 The Council has experienced slippage in its timetable for restating its opening 2010/11 balances. As a result we have been unable to carry a review of the restatement in February / March 2011 as planned. Officers expect to provide restated balances to us by the end of March.

Value for money conclusion

6 I have completed my initial risk assessment and identified a number of areas where further evidence is required around in year revisions to the Council's medium term financial plans and reserves strategy; improvements to its performance management arrangements; and delivery of planned savings and efficiencies.

Giving the audit opinion

7 My work on the council's statement of accounts is split into two elements.

■ Pre-statements audit:

- updating, documenting and walking through your systems;
- identifying and testing key controls;
- reviewing the implementation of IFRS; and
- any early substantive testing.

■ Post statements audit:

- testing material balances and ensuring the statements are in line with accounting standards.

Pre-statements audit

8 My work on corroboration of financial systems at Cheshire East and Shared Services is underway and is on track for completion by end of March. My audit team have met with internal audit to agree a testing programme for key controls. I plan to place reliance on Internal Audit work on key controls where appropriate.

9 Early substantive testing on journals has been completed. This work will be updated for the final financial quarter in April.

10 In my Audit Plan I identified two specific risks around the implementation of the new revenues and benefits systems and the upgrade to the oracle financial ledgers. We have reviewed the Council's arrangements for managing systems implementation and for obtaining assurance that the new systems operate as planned. This work will be completed shortly. I will update my risk assessment based on the results of that work and report any residual risk to the next Audit and Governance Committee.

International Financial Reporting Standards (IFRS)

11 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.

12 As reported previously, the Council had plans in place to restate its opening balances for 2010/11 but there was significant slippage against the timetable during last year. As at November 2010, officers expected to produce the restated balances by the end of January 2011 in order for me 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.

13 Work has progressed since then but there has been further slippage and a significant amount of work is still remains to complete the restatement, particularly in respect of leases and fixed asset valuations.

14 Officers now plan to produce restated opening balances for my review by end of March 2011.

Chief Accountants' workshops

15 The Audit Commission runs workshops every year for chief accountants to ensure that consistent messages about technical issues are shared with audited bodies. Cheshire East finance officers attended the Midlands workshop in February.

Ongoing audit support

16 My audit team has provided a set of working paper requirements for the finance team and is having regular discussions to deal with technical issues as they arise. Areas for discussion so far include the implications of revised auditing requirements for related party transactions and accounting estimates.

17 We also attended and presented 'An Audit Perspective' at the Council's accounts closure launch events held in February.

18 An index of Members resources available from the Audit Commission website has been included in Appendix 4 and includes a full list of International Financial Reporting Standards (IFRS) reports and briefings for management and members.

Other support

19 From 1 April 2011, our advisory services team is available to help local public sector bodies increase their productivity, deliver better value for money and be more responsive to customer needs. Details of the type of work that the can be undertaken are set out in Appendix 3.

Value for Money conclusion

20 The value for money conclusion is based on two criteria, specified by the Commission, related to your arrangements for:

- securing financial resilience – focusing on whether the Council is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Council secures economy, efficiency and effectiveness – focusing on whether it is prioritising its resources within tighter budgets and improving productivity and efficiency.

21 I have completed my initial risk assessment drawing on information gathered last year and from meetings with senior officers. Based on this assessment my audit team will be looking for further evidence that the Council.

- Has reviewed its medium term financial plan in light of the Government's Comprehensive Spending Review and is developing strategies to ensure financial stability over the medium term?
- Updated its reserves strategy?
- Has appropriate arrangements in place to identify and monitor delivery of its planned savings and efficiencies?
- Developed its performance and financial monitoring and management arrangements to support delivery of its strategic objectives?

Appendix 1 Progress to date

Activity	Date work planned	Comment
Corroboration of material financial systems and controls - operated at Cheshire East Council / Shared Services	January to March 2011	Systems updates - work on track to be completed March 2011. Early substantive testing on journals completed.
Testing of controls over financial systems - at Cheshire East Council / Shared Services	February / April 2011	Controls testing - Internal Audit field work underway.
VFM conclusion work	February to June 2011	Initial assessment to be shared with Senior officers June 2011.
Review of IFRS restated balances	February 2011	Review date revised to end March/April 2011.
Receipt of accounts and supporting working papers	30 June 2011	
Detailed testing (including Whole of Government Accounts return)	July - September 2011	
Present report to those charged with governance at the audit committee	September 2011	
Issue opinion and value for money conclusion	By 30 September 2011	
Annual Audit Letter	November 2011	

Appendix 2 Risk assessment

Risk area	Assessment	Proposed work
Restatement of financial statements in compliance with International Financial Reporting standards (IFRS).	This remains as a significant risk.	<ul style="list-style-type: none"> ■ Review Council's restated opening balances for compliance with IFRS focussing on non-current asset valuation and componentisation, identification and accounting for leases, employee benefits and group accounting. ■ Review the Council's revised accounting policies.
In year financial pressures and the impact on reserves increases the risk of financial misreporting which could impact on the true and fair presentation of the accounts.	This remains as a significant risk.	<ul style="list-style-type: none"> ■ Extended testing on income and expenditure for under and over-statement respectively. ■ Review material journals for unusual transactions. ■ Review accounting treatments against the Council's stated accounting policies for changes in practice. ■ Review the financial out-turn for the year against the Council's MTFP and planned use of reserves.
Implementation of the new Revenues and benefits system during the year.	This remains as a specific risk.	<ul style="list-style-type: none"> ■ Review Internal Audit work to check that standing and transactional data migrated completely and accurately to new system. ■ Consider whether any additional specific testing is required.
Upgrade of the Oracle General Ledger.	This remains as a specific risk.	<ul style="list-style-type: none"> ■ Review of Oracle upgrade project manage arrangements, including risk identification and management. ■ Review of assurance work carried out by Internal Audit. ■ Assessment of impact of upgrade on Council's financial reporting arrangements and capabilities.

I identified a number of other issues in my Audit Plan that may have an impact on my risk assessment on the Council's financial statements. At this stage I have not assessed any of these issues as additional audit risks but will keep them under review.

Appendix 3 Advisory services

22 The landscape of local government has changed radically in the past year. Central government announced major changes in policy. At the same time, funding has been cut back sharply. The implications of these changes for local government are huge. Local people expect the same or better services but councils and their partners will have less to spend and far fewer staff to deliver them.

23 Our Advisory Services team carries out work to help local public sector bodies increase their productivity, deliver better value for money and be more responsive to customer needs. Their work covers three broad themes:

- managing with less;
- performance challenge; and
- productive partnerships.

Managing with less

24 Councils will need to make more radical decisions than in the past, and these decisions need to be made quickly. These will result in new ways of delivering services, reduced service provision, decommissioning and shared services. This scale of change will rely on robust decision-making, clear plans and effective leadership. Strong management and supporting arrangements will be essential to ensure that they deliver against the plans.

25 Advisory Services can help councils to work through barriers in putting together plans, deal with budget management problems and help them review priorities because of reduced resources.

Performance challenge

26 Councils need to ensure that key services are as effective as possible and deliver the maximum benefit to clients. The absence of a national framework for local government places increased emphasis on robust local performance management. To meet the performance challenge, councils will need to develop different forms of delivery and new approaches performance management.

27 The scale and speed of setting up new models of public service delivery bring risk. It is important that decisions are well informed and accountability is clear. Our performance challenge work aims to help councils improve performance through better performance management, better use of information and the robust management of risk.

Productive partnerships

28 Effective partnerships are needed to help deliver services more efficiently and effectively. But councils will need to be clear about the true costs of partnership working and the value they get from it. Councils can save money by ensuring that partnerships are focused, efficient and delivering results. They can also save money by reducing the time and money they put into partnerships which are not delivering value for money for local people. However streamlining partnership working carries its own risks and councils will need to ensure that partnerships are transparent and accountable to citizens.

29 Our Productive Partnerships work aims to help councils tackle the partnership challenge and develop local solutions which work.

Appendix 4 Members resources

Audit Commission information for members

The local government national studies programme aims to improve local public services through its independent authoritative analysis of national evidence and local practice. Information on the programme is on the Audit Commission's website at [national studies programme](#).

Upcoming reports

The following are studies that the Audit Commission is currently undertaking:

Savings in district councils from shared services and management

Cuts in funding from government require councils to achieve financial savings while protecting frontline services. Many councils have begun to explore, or already achieved, savings from sharing chief executives, management teams or services. The Audit Commission has been supporting the Local Productivity Programme (LPP) shared services work stream to synthesize knowledge about shared services and management and how to implement them. A guide for councils and a series of case studies will be published through the LPP community of practice website in February 2011. Planned publication date: Spring 2011.

Local government workforce

What are the most effective means for councils to achieve savings from the pay bill while continuing to meet the needs of their communities? This study will explore how councils can do this, including how they address working patterns, staffing tiers and numbers, rates of pay, and reward packages. It will identify barriers to achieving savings and their solutions as well as highlight innovative approaches to configuring workforces in response to financial cutbacks. Planned publication date: Spring 2011

Review and challenge in councils

Councils need to have effective means for reviewing and challenging their major activities, priorities and risks. This project will research how this can be done effectively and efficiently. Research will identify the principles that best underpin review and challenge in councils. These principles will provide the basis for a series of questions to help those responsible for council governance assess their review and challenge arrangements. Planned publication date: Spring 2011

Schools workforce management

Our 2009 report, 'Valuable lessons', set out savings that could be made by schools through better balance management and more effective procurement. This study will focus on how schools, working with local authorities, can maintain or improve the value for money of their workforce deployment. It will result in a set of briefing papers examining the cost-effectiveness of classroom deployment, curriculum offer, absence management and the wider schools' workforce. Planned publication date: Spring 2011.

Domestic abuse

This provides questions for commissioners and practitioners to use in reviewing a locality's services. It highlights the themes that underpin more effective partnerships, including an understanding of costs and benefits. Planned publication date: Spring 2011

Road maintenance

What works in road maintenance, in the context of a tough funding environment? This study will help councils make difficult decisions on road maintenance spending priorities through four key areas:

- the strategic use of asset management
- decision-making and prioritization
- potential savings from procurement arrangements
- effective partnership working

Planned publication date: Spring 2011.

Managing with less

This research project aims to help councils respond to the challenges of public spending reductions. It examines the approaches taken by local councils in responding to the need to make savings and to managing with less, and at how and why decisions are made. There will be a particular focus on the data and information used; the involvement of members and partners; and the balance between short, medium and longer term planning. Planned publication date: Spring 2011.

Improving value for money in adult social care

The aim of this research is to help councils and their health partners achieve better value for money in the commissioning and delivery of adult social care. Planned publication date: Spring/Summer 2011.

Published reports

Latest releases

- **Auditing the accounts 2009/10: Quality and timeliness of local public bodies' financial reporting**, 16 December 2010. A summary of the quality and timeliness of financial reporting by councils, police authorities, fire and rescue authorities and local government bodies.
- **Against the odds - Re-engaging young people in education, employment or training**; published 3 November 2010. Since the release of the report on 7 July 2010, we have produced a series of maps detailing changes in the proportion and numbers of young people not in employment education and training (NEET).
- **Financial management of personal budgets**; Challenges and opportunities for councils. Published 28 October 2010. This report examines personal budgets in adult social care and considers the financial management and governance implications for councils. It reviews the approaches to transition from providing services to providing personal budgets, the choices for allocating money, and how councils can plan for the financial implications. It also considers changes in social care commissioning and the governance arrangements needed for personal budgets. It is aimed at finance staff and staff in adult social care departments interested in personal budgets. The report includes a self-assessment checklist to help councils review progress in implementing personal budgets and identify areas for improvement.
- **Protecting the public purse**; Fighting fraud against local government and local taxpayers. Published 27 October 2010. we describe what has happened in the field of fraud detection and prevention since 2009 and set out the findings from our recent fraud survey. Last year England's councils detected around £99 million worth of benefit fraud, over £15 million worth of council tax fraud, and £21 million worth of other types of fraud including false insurance claims, and abuse of the disabled parking 'blue badge' scheme. In addition nearly 1,600 homes have been recovered by councils with a replacement cost of approximately £240 million. We also describe the action taken by some council to tackle fraud and provide links to tools to help councils improve their counter-fraud defences. Our updated checklist gives organisations providing public services another opportunity to consider how effective they are at responding to the risk of fraud. Also available is a [single person discount comparator tool](#) that allows local authorities to compare their levels of council tax single person discount with their predicted levels, based on a national average.



- **Finance improvement tool.** Published 16 September 2010. Following our 'Under Pressure' study (February 2010), we have developed a finance improvement tool to help councils respond to the financial challenges of an ageing population and identify scope for improvement.



- **Strategic financial management in councils,** 8 September 2010. Delivering services with a reduced income. In our latest report, we reveal how organisations that manage their finances strategically are more adaptable and resilient when money is tight, and how other councils can learn from them. Councils need to make some urgent and tough decisions. 'Strategic financial management in councils' is aimed at all council staff, especially those who hold the purse strings of local government. In it, we point out potential financial pitfalls, highlight successes, and feature a value for money self-assessment questionnaire that can be used locally. The findings in the report are supported by a good-practice checklist that describes the key issues for improving financial management. Councillors and managers can use the checklist to evaluate their current approach to financial management.



- **Local government pensions in England - an information paper -** 29 July 2010. In our latest information paper, we examine the long-term affordability of the Local Government Pension Scheme, and look at steps that could be taken to put it on a better financial footing.

- **Local government claims and returns, 27 July 2010.** The level of amendments and the number of qualification letters issued by auditors in 2008/09 shows some authorities can improve their preparation of claims and returns. The first Audit Commission annual report on certification work, published on Thursday 29 July, shows that in 2008/09 Audit Commission auditors certified claims and returns from local authorities for schemes covering £45.6 billion of public money. Auditors agreed amendments to claims and returns totalling £54.5 million. Eight schemes had total amendments over £1 million and auditors qualified 673 (24 per cent) claims and returns. For the housing and council tax benefits scheme, 85 per cent of benefits claims had qualifications or amendments or both. Certification of 2008/09 claims and returns cost local authorities £18.7 million which is 0.04 per cent of the total value certified.



- **Against the odds. Re-engaging young people in education, employment or training -** 7 July 2010. We reveal how councils need a new approach in getting to grips with the needs of their local teens, in order to make scarce resources work harder for those at greatest risk of long-term unemployment.

- **A review of collaborative procurement across the public sector**, 21 May 2010. The National Audit Office and the Audit Commission have jointly produced this review. It draws on Audit Commission research in local government, carried out during the autumn of 2009. The review finds that although collaborative procurement has the potential to improve value for money, the public sector procurement landscape is fragmented, with no overall governance. Consequently, public bodies are incurring unnecessary administration costs by duplicating procurement activity, and they are paying a wide range of prices for the same commodities, even within existing collaborative arrangements. It recommends that, given the size of public sector procurement spend and the potential to significantly improve value for money, public bodies should work together much more effectively than they currently do. And there should be a clear framework to coordinate public sector procurement activity.
- **By mutual agreement**, 16 March 2010. Severance deals serve councils and the taxpayer. But our research shows that not all pay-offs are justified. Competent chief executives sometimes lose their jobs needlessly, and less effective individuals have been paid-off rather than dismissed.
- **Healthy balance**, 11 March 2010. Does your ward have a high number of teenage pregnancies, or is there growth in childhood obesity? This briefing says the NHS allocated £21 billion in 2009/10 on the basis of inequalities in health between areas. The impact of the spending is unclear.
- **The truth is out there: A discussion paper**, 5 March 2010. Information is essential: it helps you make better decisions. Making more and better information available to the public should help them evaluate the decisions their elected representatives are making, what public money is spent on and with what result. This discussion paper looks at how councils and health trusts, social workers, doctors and police can improve data and analysis made available to the public.
- **Under pressure**: Tackling the financial challenge for councils of an ageing population, 18 February 2010. Councils need to understand the nature and needs of residents who are ageing. The report stresses growth in the number of older citizens affects all services. We need better working across boundaries.



- **Giving children a healthy start: A review of health improvements in children from birth to five years**, 3 February 2010. Have the large sums spent on young children from 1999 to 2009 improved their health? The study examines local service planning and delivery, and how councils and primary care trusts can improve services and access for vulnerable groups, lone and teenage parents and black and minority ethnic communities.



International Financial Reporting Standards (IFRS)

30 The following IFRS reports and briefings are available on the Audit Commission website for management and members.

Complete list of resources

- [Countdown to IFRS: Reporting on operating segments - 29 October 2010](#) Our latest briefing on the countdown to IFRS covers principles and practical issues that authorities should consider when reporting on operating segments.
- [Countdown to IFRS: Progress on the transition to IFRS - 5 October 2010](#) The deadline for local authorities to produce IFRS-compliant accounts is fast approaching. Successful implementation of IFRS will testify to the ability of local government to manage a major change in its financial arrangements. The paper draws on a survey completed in July 2010 by auditors of all local authorities, fire and rescue authorities, and police authorities, on local government's progress on transition to IFRS. In this paper we:
 - make comparisons with a baseline assessment taken in November 2009;
 - set out relevant lessons from the NHS experience of transition, as NHS bodies have implemented IFRS a year earlier than local government; and
 - outline the key actions that authorities should be taking at this stage.
- [Countdown to IFRS: Accounting for employee benefits - 15 July 2010](#) Issues authorities may face when accounting for employee benefits.
- [Countdown to IFRS: Managing the practical implications of restating non-current assets - 17 June 2010](#) Guidance on managing the practical implications of restating non-current assets.
- [Countdown to IFRS: Summary paper - 8 June 2010](#) A guide for senior managers and members.
- [Countdown to IFRS: Accounting for non-current assets - 17 May 2010](#) Introducing international financial reporting standards (IFRS) for Accounting for non-current assets.
- [Countdown to IFRS - Checklist for councillors - 17 March 2010](#) Councillors checklist - discussing IFRS transition plans with officers.
- [Countdown to IFRS - Identifying and accounting for leases - 17 March 2010](#)

Issues arising from the introduction of International Accounting Standard (IAS) 17: Leases.

- [Countdown to International Financial Reporting Standards \(IFRS\) - 19 February 2010](#)
Implementation of IFRS in local government.
- [IFRS briefing paper 3 for local government - 4 May 2009](#)
Managing the transition to IFRS.
- [IFRS briefing paper 2 for local government - 1 September 2007](#)
The move to international financial reporting standards - how can your auditor help?
- [IFRS briefing paper 1 for local government - 1 May 2007](#)
The move to international financial reporting standards.

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