

# Progress report

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June 2011

Cheshire East Borough Council

Audit 2010/11

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS Foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Summary

1 This report provides members with an update of our ongoing work at the Council and informs you of the risks arising from the audit, under International Standard on Auditing (United Kingdom and Ireland) 300. The key messages to draw to members' attention are as follows.

## The Audit Commission

2 The Secretary of State for Communities and Local Government announced on 13 August 2010 that the Audit Commission would be abolished in 2012/13. The Audit Commission was already embarking on a three-year programme to deliver cost cuts of about £70 million (10 per cent per year).

3 The Audit Commission has been working closely with the Department for Communities and Local Government on options to externalise the work of the in-house audit practice. It has agreed to the Permanent Secretary's request to start preparatory work for the potential outsourcing with effect from 2012/13 audits.

4 The Commission been asked to design a procurement process that allows a range of firms to bid, including the possibility of an in-house bid, which could form the basis of a new and distinctive provider in the market, possibly a mutual.

## Audit progress

### Opinion on the statement of accounts

- Our work documenting and testing systems and processes is nearly complete. There are no significant issues arising.
- Some issues around control of access to the main accounting system have been identified.

### Value for money conclusion

- Our value for money work is progressing to plan.

### Audit fee

5 We reported a revised audit fee of £362,453 to the January 2011 Audit and Governance Committee. At this stage of the audit, we are not proposing any changes to this fee.

## Members' resources

6 This update includes information about reports published by the Audit Commission and our advisory services (appendix 1).

## Reporting

7 We will formally report the findings of our 2010/11 audit work in the Annual Governance Report in September 2011.

## Grant claims

8 The 2010/11 grant claims programme will commence shortly and will cover the following claims.

- Housing and Council Tax Benefits Scheme.
- National non-domestic rates grant.
- Teachers' pensions return.
- Disabled facilities grant.
- General Sure Start grant.

# Council - opinion audit

## Council opinion audit update

### Significant audit risks

Our audit plan, presented at the January 2011 meeting of the Audit & Governance Committee, listed three significant audit risks:

- transition to IFRS;
- upgrade of main financial system; and
- implementation of the new revenues and benefits system.

To comply with International Auditing Standards we need to understand and evaluate management's response to these risks to inform our financial statements testing strategy.

We previously assessed the financial pressures experienced by the Council in year as giving rise to a significant audit risk of financial misreporting. Based on latest information, we have revised that assessment. The risk of financial misreporting due to financial pressures is not deemed to be a significant risk. Any further changes to our risk assessment will be reported to the Committee.

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### Pre-statements work

We have completed the pre-statements work; reviewing and updating the documentation for the material financial systems and completing early testing where possible. We have not found any significant matters to report to you except for the main accounting system (Oracle) access issues referred to below.

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### IT risk assessment

Our IT risk assessment identified a number of control weaknesses that could impact on the integrity of the data within Oracle, for example:

- password control is weak;
- Oracle development/support staff have permanent access to live data for the systems they support;
- arrangements for managing remote access accounts for external contractors are weak; and
- supplier remote accounts were identified for an unknown user company.

We have asked for additional information to assess the impact of these weaknesses on our work. We will inform members at a later date if any significant audit risk emerges from this work.

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### Internal Audit

We are working closely with Internal Audit. We have placed reliance on their work on the key financial system audits where possible.

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### IFRS transition

As previously reported, the Council experienced slippage in its timetable for restating its opening 2010/11 balances. We carried out a high level review in April 2011 and reported back to officers. Detailed testing will be under taken as part of our audit of your financial statements.

**Financial Statements audit visit**

Our audit of the 2010/11 financial statements will start in early July. We are meeting with officers on a regular basis to discuss plans, timetables and other audit issues.

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# Council - value for money conclusion

## VFM conclusion update

The new approach to our value for money work for 2010/11 is set out in our Audit Plan. More detail can be found by following the link to the Audit Commission's website (<http://www.audit-commission.gov.uk/localgov/audit/auditmethodology/Pages/valueformoneyconclusion.aspx>). We have completed our initial assessment and have identified areas for follow up to enable us to complete the VFM conclusion. These include reviewing:

- the arrangements in place to identify and monitor delivery of planned savings and efficiencies; and
  - the Council's performance and financial monitoring and management arrangements to support delivery of its strategic objectives.
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# Appendix 1 Members resources

## National studies

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.

## Advisory Services

Our Advisory Services are able to support clients under paragraph 9 of Schedule 2A of the Audit Commission Act 1998 to provide 'advice and assistance' (A&A) to another public body. We have developed a number of briefings and tools to support councils with their efficiency agenda, get better value from partnerships and improve performance. Please contact the District Auditor or Audit Manager if you would like to know more about these improvement tools.

## Upcoming reports

The following are the studies that the Audit Commission is currently proposing.

- Local government workforce: What are the most effective means for councils to achieve savings from the pay bill while protecting the quality of services? 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.
- Managing with less (Spring 2011): 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.
- Review and challenge in councils (Spring 2011): 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.

- Schools workforce management (Spring 2011): 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

## Published reports - latest releases

### **Improving value for money in adult social services, 2 June 2011**

- This briefing is the first in a series of briefings that will look at value for money in health and social care and considers what councils might do to provide better, more efficient services. It finds that, as demographic change and financial pressures combine to create tough times for adult social care, councils have looked at many aspects of the service in order to provide better, more efficient services. Better procurement, improved back office arrangements, and a preference for community-based rather than residential care where possible, are just some of the changes that local authorities have implemented to help them meet the challenges they face. But the briefing also finds that the pace and scale of change need to increase if councils want to release material savings, as well as improve care for people.

### **Going the distance - Achieving better value for money in road maintenance, 26 May 2011**

- This national report looks at what councils can do to get more for their money in road maintenance, in the face of increasing traffic, severe winters, higher costs, and dwindling highways funding. The report highlights how councils can get more for their money, including cost-saving collaborations with neighbours, asset management to show when road maintenance will be most effective, new ways of keeping residents informed, and weighing short-term repairs against long-term resilience. It includes a series of case studies which demonstrate how some councils have developed strategies that balance growing service demands with reducing resources.

### **Better value for money in schools, 31 March 2011**

- These four briefings are designed to help schools make the best use of their workforce - whether teachers, teaching assistants, or administration and finance staff - at a time when they have to find savings. They aim to help school heads, governing bodies and councils control costs without compromising educational attainment. In addition, the Commission published a summary paper, an overview of school workforce spending, which is targeted at chairs of governing bodies and lead members on children's services.

## International Financial Reporting Standards (IFRS)

9 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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