

# Audit Committee Update

**Cheshire East Council**

**Audit 2011/12**

**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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# Introduction

- 1 The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2 This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3 If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4 Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Judith Tench  
District Auditor  
January 2012

# Progress Report

## Financial statements

**5** I have completed my initial audit risk assessment of your financial statements. Details of my assessment and planned work are set out in my Audit Plan which I presented at the January 2011/12 Audit & Governance Committee

## VFM conclusion

**6** My conclusion on the Council's arrangements is based on two criteria, specified by the Commission. These relate to the Council's 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 the Council is prioritising its resources within tighter budgets and improving productivity and efficiency.

**7** In particular I will undertake work to review the Council's progress in:

- delivering its core budget and savings proposals, and
- realising planned savings and efficiencies from its policy proposals and service transformation plans.

# Other Matters of Interest

## 2011/12 Final Accounts Workshops

**8** We have invited your staff to a workshop that will help them to prepare your financial statements for 2011/12.

**9** The closest event for Cheshire East Council is at Halton Borough Council in Widnes on 8 February 2012. Please contact Judith Tench, your District Auditor, if you have not received an invite to these workshops or if you would like to discuss the events in more detail.

## Work in Progress

**10** On 7 December 2011, the Audit Commission published 'Work in Progress - meeting local needs with lower work force costs'.

**11** The report, launched jointly with the Local Government Association, is aimed at councils as employers and shows how local authorities across England are reducing their workforce costs, with some finding creative solutions.

**12** Government funding for councils will shrink by over a quarter between 2011/12 and 2014/15. Councils will need to reduce their workforce costs substantially while still providing much needed services. To do this, councils will need to reassess what they do, how they do it, and what their priorities are. Those opting for major restructuring will take more time to realise savings.

**13** So far some councils have cut their pay bill without losing jobs, but redundancies will become inevitable. In the past year an estimated 145,000 jobs have gone, and this figure will increase in the future. So far many redundancies have been voluntary, but the report warns that compulsory ones are set to rise.

**14** The report is supported by a number of resources including:

- An agency worker expenditure comparison tool.
- A workforce expenditure tool which shows how much councils spend on staff as a proportion of net current expenditure, and how this has changed over time.
- Case studies which provide examples of different approaches councils to reducing pay costs while protecting valuable services.
- Benchmarking guidance.

## Dealing with the economic downturn

**15** On 17 November 2011 the Audit Commission published 'Tough Times - Councils' responses to a challenging financial climate'.

**16** The report draws heavily on the expertise of the external auditors of each council and also includes new analysis of councils' budget data.

**17** The key findings in the report are:

- Most councils are managing well in the face of unprecedented reductions to their income, but services have been affected and a small number of councils may struggle to balance their books;
- Although councils face a real terms loss of total income of £4.7 billion (7.5 per cent) in 2011/12, auditors felt nine out of ten councils are well prepared for this and are on track to deliver their budgets;
- To meet the future challenge of cuts in government funding, some elements of councils' cost-reducing strategies will have to change and many councils will face difficult decisions about how to meet their funding shortfall in the next few years; and
- Councils are not planning to make significant withdrawals from their reserves this year - some even plan to increase them.

**18** The report recommends that councils use the Audit Commission's Value for Money profiles to see how their council compares to the national picture set out in this report, identify councils facing similar challenges, and learn from others' approaches.

## Procurement Fraud in the Public Sector

**19** The National Fraud Agency has recently issued a report on public sector procurement fraud which examines new approaches to reduce fraud risk and make processes both quicker and simpler.

**20** The report acknowledges that procurement fraud is a complex problem. It covers a wide range of illegal activities from bid rigging during the pre-contract award phase through to false invoicing in the post-contract award phase. It can be perpetrated by those inside and outside an organisation.

**21** The report includes a number of case studies and details a number of actions that can be taken both immediately and in the medium term.

## Protecting the Public Purse 2011

**22** In November 2011 the Audit Commission published 'Protecting the Public Purse 2011 - Fighting Fraud against Local Government.'

**23** This report is based on the Audit Commission's annual fraud survey - which is still the sole source of evidence about the levels of detected fraud in Local Government and related bodies.

**24** The report reveals that England's councils have succeeded in detecting £185 million worth of fraud, an improvement of 37 per cent on last year's figure of £135 million. This is equivalent to a year's funding for around 700 libraries or the wages of up to 11,000 care workers.

**25** The key areas where fraud was detected are:

- housing benefits and council tax benefits fraud, which accounted for more than half of the total fraud losses detected by councils;
- false claims for student and single person council tax discounts - £22million; and
- procurement fraud, with 145 cases amounting to £14.6 million.

**26** The report found that counter-fraud professionals increasingly recognise abuse of personal budgets in adult social care as a fraud risk for councils and, in addition to the above, the National Fraud Authority estimates that housing tenancy fraud could cost up to £900 million each year.

**27** The report concludes with a checklist that organisations may find it helpful to self-assess against. Covering a wide range of issues from procurement to recruitment, it will help provide Audit Committees with assurance over the arrangements in place.

**28** In addition to the core report, there are separate briefings to specifically aid governors in schools and councillors in parish and town councils.

## **Localism Act 2011**

**29** On 15 November 2011 the Localism Bill received Royal Assent.

**30** The Department for Communities and Local Government (DCLG) has published an updated plain English guide to the Localism Act to reflect the final legislation and this may be of interest to members of the Audit Committee.

**31** Subject to commencement, key measures of the Act include:

- introducing a new general power of competence, giving councils freedom to work together to improve services and drive down costs. Councils are now free to do anything - provided they do not break other laws;
- giving communities the right to approve or veto - by way of a referendum - Council Tax increases higher than a limit determined by the Government.
- opening the door for the transfer of power to major cities to develop their areas, improve local services, and boost their local economies;
- abolishing the Standards Board;
- clarifying the rules on predetermination in order to free up councillors to express their opinions on issues of local importance without the fear of legal challenge;
- enabling councils to return to the committee system of governance, if they wish, regardless of their size;
- giving councils greater control over business rates. Councils will have the power to offer business rate discounts, which could help attract firms, investment and jobs;
- promoting openness regarding the pay of senior officers; and



- allowing councils to keep the rent they collect and use it locally to maintain social homes through the abolition of the housing revenue account.

**32** Many of the measures in the Localism Act are expected to be in place by April 2012.

## **Openness and Accountability in Local Pay**

**33** The Localism Act referred to earlier requires local authority pay policies to be openly approved by democratically elected councillors.

**34** On 17 November 2011 the Department for Communities and Local Government published guidance which sets out the requirements for councils to publish their remuneration arrangements and approve larger salary packages in an open session of the full council.

**35** Pay policy statements must be in place by 31 March 2012 and Ministers explicitly say in the guidance that the pay vote ceiling should be set at £100,000.

**36** There will be a requirement to publicly justify any big bonuses, above inflation annual pay rises, or hiring a person already in receipt of retirement or severance money and organisations should state in their pay policy statement whether or not they permit such practices.

## **For information:**

## **Police Reform and Social Responsibility Act 2011**

**37** The Police Reform and Social Responsibility Act received Royal Assent on 15 September 2011.

**38** This Act will abolish police authorities in England and Wales and replace them with directly elected police and crime commissioners.

**39** The Act requires the police and crime commissioner for a policing area to hold the chief constable to account, while also safeguarding the chief constable's operational independence. A police and crime panel, established by the local authorities in a police area, will provide independent scrutiny of the police and crime commissioner.

**40** The first elections of police and crime commissioners will take place on 15 November 2012 and police authorities will be abolished within a week of these elections. All staff and assets will transfer in the first instance to the office of the police and crime commissioner.

# Key Considerations

41 The Audit & Governance Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Has the Council considered the Work in Progress and Tough Times reports and made appropriate use of the associated tools - vfm profiles, the workforce and agency worker expenditure tools?
- Has the Council used the single person discount comparator tool to compare its levels of council tax single person discount with the predicted level?
- Has the Council completed the fraud prevention checklist and, where appropriate, developed an action plan to address any weaknesses?
- Has the Council circulated the fraud briefing to all school governors?
- Has the Council circulated the DCLG's plain English guide to the Localism Act to all members?

# Update on the externalisation of the Audit Practice

**42** The Audit Commission's Chief Executive, Eugene Sullivan, wrote to clients on 21 September 2011 summarising the Department for Communities and Local Government's plans for externalising the Audit Commission's work that is currently undertaken by the Audit Practice.

**43** The key points are:

- Contracts will be let from 2012/13 on a three- or five-year basis. The earliest you will be able to appoint your own auditors is therefore for the 2015/16 audit.
- The work is split into four regions, comprising ten 'lots'. Each lot will be awarded separately, but any individual bidder can only win a maximum of one lot in each region (i.e. four lots in total).
- The Commission is managing a fair and equitable procurement process to allow suitable private-sector providers the opportunity to bid.
- Bids are due in by mid-December 2011, with the contract awards planned for mid-February 2012, with formal Commission approval planned for late July 2012 following consultation.
- Appointments will start on 1 September 2012. As such, the Commission will extend the current audit appointment to allow any audit issues arising between 1 April 2012 and 31 August 2012 to be dealt with. The costs of this 'interim' audit role will be met by the Commission.
- Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

**44** A further update was provided in Eugene Sullivan's letter to clients of 10 November 2011. Thirteen potential providers have now been invited to tender following the initial pre-qualification stage.

**45** Further details are available on the Audit Commission's website. We will continue to keep you updated on developments.

**46** Against this background, the Audit Practice's focus remains:

- Fulfilling our remaining responsibilities – completing our work for 2010/11 and delivering your 2011/12 audit - to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

# Contact Details

**47** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor / Engagement Lead or Audit Manager.

**48** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

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