

# **Audit** **Committee** **update**

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**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

28 June 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. At that time I identified one significant risk in relation to potential financial mis-reporting due to in year financial pressures. I also identified three specific risks around capacity within the finance team, Oracle access controls and collection fund.

**6** There are no changes to my initial risk assessment to report to the Committee at this stage.

## VFM conclusion

**7** 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.

**8** Work is underway reviewing the Council's progress in delivering its core budget and savings proposals, and in realising planned savings and efficiencies from its policy proposals and service transformation plans. I will also be considering the report presented to the Audit & Governance Committee on the Lyme Green project and its implications for my value for money conclusion.

# Government response to consultation on the future of local public audit

**9** In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011 the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

**10** The Audit Commission recently announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17 (see 'update on the externalisation of the Audit Practice' below). The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments.

**11** Thereafter, the government proposes that a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel, with a maximum of two terms of five years permissible.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

**12** The government response provides little detail on the audit arrangements for local health bodies. The Department of Health is working through the implications of Monitor's changing role and the proposed establishment of Clinical Commissioning Groups, and will specify the detailed arrangements for the audit of local health bodies, under the new framework, in due course.

**13** The government is holding further discussions with audited bodies and audit firms to develop its proposals. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

# Update on the externalisation of the Audit Practice

**14** The Audit Commission's Managing Director, Audit Policy wrote to audited bodies on 6 March 2012 on the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

**15** The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.

Firm	Contract areas
DA Partnership	North East & North Yorkshire
Ernst and Young	Eastern South East
Grant Thornton	North West West Midlands London (South), Surrey & Kent South West
KPMG	Humberside & Yorkshire East Midlands London (North)

- The Commission has secured very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission published the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board has now confirmed the 'interim' auditor appointments for the first five months of 2012/13.
- The Commission has also written to all audited bodies setting out its proposals for 'permanent' auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission will propose as the appointed auditor the firm that was awarded the contract in each



area, unless there are good reasons that to do so would be inappropriate.

- To support the consultation process, the Commission arranged a series of introductory meetings in each contract area in April and May 2012. The purpose of these meetings was to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

**16** The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their 2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

**17** Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

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

**19** 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.

## Other matters of interest

### National Fraud Initiative consultation

**20** The Audit Commission recently completed its consultation on its proposed work programme and scales of fees for the 2012/13 National Fraud Initiative (NFI).

**21** The NFI, which takes place biannually, has helped trace over £650 million in fraud, error and overpayments since it began in 1996 and has attracted international recognition.

**22** The work programme will remain unchanged from NFI 2010/11 and, in recognition of the financial pressures that public bodies are facing, the Audit Commission proposes that the scale of fees for mandatory participants will remain the same as for NFI 2010/11. For Cheshire East Council this is £3,650.

### Local government capital finance system

**23** In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

**24** A summary of the consultation responses was published on 8 February 2012 and the Regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament.

**25** DCLG's commentary confirms the intended effects of the amended Regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;
- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

### CIPFA's Prudential Code for Capital Finance

**26** CIPFA has recently updated its Prudential Code for Capital Finance in Local Authorities. This new version reflects the introduction of IFRS which required:

- PFI schemes to be included on organisations' balance sheets; and
- The accounting treatment of leases to be reviewed – with many more likely to be considered as finance leases and thus also included on the relevant balance sheets.

**27** Although local authorities determine their own capital programmes, they are required to have regard to CIPFA's Prudential Code (the Code) in order to ensure that these capital investment plans are affordable, prudent and sustainable.

**28** To demonstrate that these objectives have been met, the Code sets out the indicators that must be used and the factors that must be taken into account.

**29** The Code does not include suggested indicative limits or ratios and these are for the local authority to set itself, subject to some overriding controls.

**30** The prudential indicators required by the Code should be considered alongside its Treasury Management performance indicators. These indicators are both are designed to support and record local decision making and are not designed to be comparative performance indicators.

## **2011/12 Accounts: CIPFA Guidance Notes for Practitioners**

**31** CIPFA has recently published a set of guidance notes to provide support in preparing the 2011/12 year-end accounts. These offer constructive advice on all aspects of the requirements for 2011/12 and provide detailed guidance on the key changes, including accounting for:

- heritage assets;
- business rate supplements;
- community infrastructure levies;
- related party disclosures;
- exit packages;
- trust funds;
- financial instruments; and
- interests in joint ventures.

**32** The key changes to your financial statements in 2011/12 were also covered by our final accounts workshops.

## **Openness and accountability in local pay**

**33** On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

**34** For each financial year, beginning with 2012/13, the Cheshire East Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees.

**35** The statement must be:

- approved by full Council, or a meeting of members in the case of a Fire and Rescue Authority; and

- published on its website.

## For information: Board Governance Essentials

**36** The Public Chairs' Forum and CIPFA have recently published a joint 'how to' guide for Chairs and Boards of public bodies.

**37** 'Board Governance Essentials: A Guide for Chairs and Boards of Public Bodies' offers advice across four key areas.

- Good corporate governance.
- Roles, responsibilities and relationships.
- Standards of behaviour in public life.
- Effective financial management and transparency.

**38** This guide may provide interesting reading for all members.

## Joining up health and social care

**39** On 1 December 2011 the Audit Commission published the second in a series of briefings looking at adult social care.

**40** 'Joining Up Health and Social Care - Improving Value for Money Across the Interface' shows significant variations in indicators such as the levels of emergency admissions to hospital. This raises questions about how well services are being integrated to meet the preferences of older people. Despite the focus for many years on improving joint working across the NHS and social care, progress remains patchy.

**41** At a time when the whole of the public sector must find significant savings, the report says that integrated working offers opportunities for efficiencies and improvements to services. Without it, there is a risk of duplication and 'cost-shunting' - where savings made by one organisation or sector simply create costs for others.

**42** The briefing offers guidance to local partnerships, setting out a list of questions to consider and suggestions for interventions that might help. The briefing also includes a number of case studies which show how some areas have embraced partnership working and used local data and benchmarking to establish how and where to make improvements.

**43** The Audit Commission has developed a tool to accompany the briefing that allows NHS and social care partnerships to benchmark their performance against others.

# Key considerations

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

- Has the Council reviewed its prudential indicators in the light of CIPFA's revised prudential code?
- Has the Council reviewed CIPFA's guidance notes for the 2011/12 financial statements and made satisfactory arrangements for their implementation?
- Has the Council considered the implications of the amendments to the capital financing regulations?
- Has the Council reviewed the questions included in the Audit Commission's briefing paper on joining up health and social care?
- Has the Council used the Audit Commission's tool to benchmark the performance of its NHS and social care partnership?

## Contact details

**45** 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.

**46** 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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