

Annual Audit Letter

Eden District Council

Audit 2008/09

November 2009

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Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
 - any third party.
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Key messages

This report summarises the findings from our 2008/09 audit. It includes messages arising from the audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

Audit Opinion and financial statements

- 1 At the Accounts and Governance Committee on the 24 September 2009 we discussed the detailed findings from my 2008/09 audit that were set out in my Annual Governance Report. I issued an unqualified opinion on the accounts on the 29 September 2009.
- 2 No material errors were found in the statements but some changes had to be made to the accounts before I gave my opinion. Improvements to the Council's accounts preparation process have been agreed for 2009/10.
- 3 Accounting for the Penrith New Squares and Frenchfield developments was always going to be challenging given the nature of the transactions. However, in the event, the transactions and necessary disclosures were further complicated as a result of the economic downturn that resulted in the development stalling. We reviewed the transactions and they were properly accounted for.

Value for money

- 4 I issued an unqualified opinion on the Council's arrangements to secure value for money in its use of resources. This is known as my VFM conclusion.
- 5 I have completed my work on the Use of Resources assessment for 2008/09. Use of Resources is a scored judgement which determines how well councils manage and use their resources. The Council's use of resources theme scores have been assessed as follows:
 - Manages finances: Level 3: performs well
 - Governing the business: Level 2: performs adequately
 - Managing its human resources: Level 2: performs adequately
- 6 The Council has a track record of managing its spending within the available resources although the economic downturn poses significant financial challenges. A significant issue for the Council is the stalling of the Penrith New Squares Development. If the Council has to find an alternative investor, developer and supermarket operator for this scheme, it has estimated that it could cost the Council some £6.6m. The Council plans to make its decision on the way forward for the Penrith New Squares Development in December 2009 following the public consultation that has taken place and taking account of legal and other advice that has been sought.

Financial statements and annual governance statement

The Council's financial statements and annual governance statement are an important means by which the authority accounts for its stewardship of public funds.

Significant issues arising from the audit

- 7** Accounting for the Penrith New Squares and Frenchfield developments was always going to be challenging given the nature of the transactions. However, in the event, the transactions and necessary disclosures were further complicated as a result of the economic downturn that resulted in the development stalling and, ultimately, the developer being wound up. Notwithstanding this, the financial statements correctly reflected the financial transactions for this scheme.
- 8** I identified errors in the financial statements and reported these to management and to the Accounts and Governance Committee, in the Annual Governance Report, in September 2009. No material errors were found but some changes had to be made due to other audit considerations. There are no matters to bring to your attention at this stage.

Material weaknesses in internal control

- 9** I did not identify any significant weaknesses in the Council's internal control arrangements.

Accounting Practice and financial reporting

- 10** I consider the qualitative aspects of the Council's accounting practice and financial reporting. My findings were reported in my Annual Governance Report. The areas where improvements are necessary were as follows.
 - Related party transactions.
 - Approval of accounting policies.
 - Consistency and arithmetic in the Statements of Account.
 - Asset Register.
 - Disclosure of fixed assets.

Value for money and use of resources

I considered how well the Council is managing and using its resources to deliver value for money and better and sustainable outcomes for local people, and gave a scored use of resources judgement.

I also assessed whether the Council put in place adequate corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money (VFM) conclusion.

Use of resources judgements

- 11** In forming my scored use of resources judgements, I have used the methodology set out in the [use of resources framework](#). Judgements have been made for each key line of enquiry (KLOE) using the Audit Commission's current four point scale from 1 to 4, with 4 being the highest. Level 1 represents a failure to meet the minimum requirements at level 2.
- 12** The Council's use of resources theme scores are shown in Table 1 below. The key findings and conclusions for the three themes are then summarised in the sections that follow the table.

Table 1 Use of resources theme scores

Use of resources theme	Scored judgement
Managing finances	3 - performs well
Governing the business	2 - performs adequately
Managing resources	2 - performs adequately

Managing finances

- 13** Medium-term financial planning and the annual budgeting process have resulted in there being a shift in resources to focus on the Council's priorities. Public consultation has had a demonstrable impact on the services now being delivered.
- 14** The economic downturn and banking crisis is having a very significant impact on public finances and the bodies that manage them. The impact on treasury management strategies has been immediate, but there are wider and more fundamental impacts on the ability of public sector bodies to fund service delivery and capital programmes

- 15 The Council has considered the impact of the banking crisis on its treasury management and is continuing to consider the implications as part of its medium term financial plan.
- 16 The economic downturn also affects my audit considerations and as part of my responsibility, I have reviewed the Council's treasury management arrangements and found them to be prudent.
- 17 The Council has a track record of managing its spending within the available resources although the economic downturn poses significant financial challenges. In particular, if the Council has to find an alternative investor, developer and supermarket operator for the Penarth New Squares Development it has estimated that this will cost £3.2m for the direct costs incurred with the building sites and £3.4m for the loss of income (excluding car parking income). The Council plans to make its decision on the way forward for the Penrith New Squares Development in December 2009 following the public consultation that has taken place and taking account of legal and other advice that has been sought.
- 18 The most recent 'Place Survey' shows that the public's level of satisfaction is higher than the national average in most of the areas where the Council provides the service. Whilst costs for key services are high when compared to nearest neighbours they are both similar to the best value family group identified by the Council and are in line with stated priorities.
- 19 Effective financial reporting underpins accountability to the public and other stakeholders. The Council needs to undertake more effective consultation to determine the form and content of its external financial reporting including consultation on methods other than web based.

Governing the business

- 20 The Council is clear about the intended outcomes of its activities but the extent to which its commissioning and procurement activities reflect an ongoing needs assessment is less evident. It is also less clear on how local people might be involved in commissioning.
- 21 The Council has adequate arrangements for producing relevant and reliable data and information to support its decision making. The Council has also improved the arrangements in place to ensure the accuracy of third party data through signed protocols. However, this data is not yet subject to any validation by the Council. The Council makes good use of information in decision making to plan how services will be accessed in the future. The Council makes good use of its performance data by ensuring that reports to senior managers and members are focused on key indicators and provide exception reports to show potential areas of under-performance.
- 22 Arrangements are in place to ensure data security and compliance with statutory requirements. Business Continuity Plans are routinely tested.

Value for money and use of resources

- 23 The Council promotes and demonstrates the principles and values of good governance. Cumbria County Council's Trading Standards Unit is investigating an alleged fraud by the contractor for the Council's bring site recycling contracts. The County Council is leading on this investigation as the financial impact of any proven fraud is likely to have the greatest impact on them. In the meantime the Council has suspended its contract with this contractor.
- 24 The Council continues to demonstrate that it has a sound system of internal control.
- 25 The Council has appropriate risk management arrangements in place. Risk management is seen as central to everything it does and addresses it in a number of ways.

Managing resources

- 26 Of the three 'managing resources' KLOE's only one, workforce planning, was assessed for 2008/09. The new UoR assessment also required workforce planning to be assessed in greater detail than in previous years.
- 27 The Council performs adequately in managing its people to meet current and future needs. Its workforce is skilled and productive with more than 70 per cent of employees having NVQ level 4 and above. However, succession planning for the Council is under-developed with some services heavily dependent on a few key individuals.
- 28 The Workforce Plan (2008-2011) sets out actions and opportunities to tackle skills shortages and increase capacity. The plan demonstrates a more strategic approach to workforce planning than, until 2008/09, was not evident.
- 29 Sickness absences are reducing and are the lowest when compared to the other Cumbria councils. The reduction reflects the more proactive approach to attendance management that has been adopted. However, long term sickness absence continues to have an adverse impact on the average number of sickness absence days because of the small number of staff that the Council employs.
- 30 The Council has a positive approach to employee relations. Employees are consulted – both formally and informally - on significant issues. Internal staff communication has been improved through the provision of a corporate and staff bulletin board and an e-magazine. As a result the Council was ranked 16th best out of 95 local authorities in the 'Best Councils to Work For' Times survey (2008).
- 31 Overall the workforce profile is not reflective of the local population. In particular there is under-representation of people who have a disability or who are from black and minority ethnicity (BME) communities. Whilst the Council now meets level 2 of the Equality Standard for Local Government and has plans to achieve level 3, the majority of Council's have already achieved at least level 3.

Review of Risk Management in the Cumbria Strategic Partnership

- 32 To inform our Use of Resources assessment we undertook a review of Risk Management within the Cumbria Strategic Partnership (CSP).

- 33** All partnerships face uncertainties in delivering their objectives. Effective strategic risk management is essential to enable the Cumbria Strategic Partnership (CSP) to exploit opportunities to improve services in a cost efficient way.
- 34** Although the CSP's Governance Framework sets out the risk management arrangements, it is not implemented consistently nor does it encourage well managed risk taking to deliver innovative service improvements and efficiencies.
- 35** The CSP's Governance Framework needs to be fit for purpose without imposing a burden on the partnership managers. Partners acknowledge improvements are required to the risk management and wider governance arrangements within Cumbria Strategic Partnership. Our detailed report and action plan are currently being discussed and agreed within the CSP.

VFM Conclusion

- 36** I issued an unqualified conclusion stating that the Council had adequate arrangements to secure economy, efficiency and effectiveness in its use of resources on 29 September 2009.

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Looking forward

Penrith New Squares Development

37 Moving the Penrith New Squares Development forward is the biggest challenge that the Council faces. Whatever decision is taken there are likely to be further concerns raised by the public and other interested parties. There will also be legal, financial and other issues that will need to be addressed.

Organisational Assessment and Comprehensive Area Assessment

38 In December 2009 the Audit Commission will publish its findings from the review of the Council's Organisational Assessment which forms part of the Comprehensive Area Assessment for Cumbria as a whole. These assessments draw on our findings from our work on the Council's use of resources but are separate judgements made by the Audit Commission's Comprehensive Area Assessment Lead (CAAL).

Use of Resources Assessment during 2009/10

39 The key lines of enquiry specified for the assessment are set out in the Audit Commission's work programme and scales of fees 2009/10. My work on use of resources informs my 2009/10 value for money conclusion. In 2009/10, KLOE 3.3 - workforce planning will not be assessed but KLOE, 3.1 - natural resources - will apply to district council. As we have not assessed the Council's use of natural resources before we plan to commence our work in this area in January 2010.

Closing remarks

- 40** I have discussed and agreed this letter with the Chief Executive and the Director of Finance. I will present this letter to members at the Council meeting on 26 November 2009.
- 41** Further detailed findings, conclusions and recommendations in the areas covered by our audit are included in the reports issued to the Council during the year.

Table 2 Reports issued during the year

Report	Date issued
Audit Plan	May 2008
Opinion audit plan	June 2009
Interim audit memorandum	August 2009
Annual Governance Report	September 2009
Partnership Risk Management - Cumbria Local Strategic Partnership	August 2009 (Presentation)
Auditor's report giving an opinion on the financial statements	September 2009
Use of Resources	October 2009

- 42** The audit fee has increased since my original plan to reflect the cost of additional technical accounting advice that was needed to address the accounting treatment of the various elements that related to the Penrith New Squares and Frenchfield Developments.

Table 3 Audit fees

	Actual (£)	Proposed (£)	Variance (£)
Financial statements and annual governance statement	62,148	58,812	3,336
Value for money	29,865	29,865	0
Total audit fees	92,013	88,677	3,336

Closing remarks

Acknowledgements

- 43 The Council has continued to take a positive and constructive approach to our audit. I wish to thank the Council's staff for their support and co-operation during the audit.

Independence

- 44 I can confirm that the audit has been carried out in accordance with the Audit Commission's policies on integrity, objectivity and independence.

Karen Murray
District Auditor
November 2009

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