

Government and Public Sector

November 2009

# Fenland District Council

## 2008/09 Annual Audit Letter

The Members  
Fenland District Council  
Fenland Hall  
County Road  
March  
Cambridgeshire  
PE15 8NQ

November 2009

Ladies and Gentlemen

We are pleased to present our Annual Audit Letter summarising the results of our 2008/09 audit. We look forward to presenting it to members of the Corporate Governance Committee on 8 December 2009.

Yours faithfully



PricewaterhouseCoopers LLP  
Enclosure

**Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies**

*In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.*

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# Executive summary

The key matters referred to in this audit letter are:

- We issued an unqualified audit opinion on the 2008/09 accounts on 30 September 2009 (page 6).
- We were required to issue a conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. We issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 30 September 2009 (page 10).
- The Overall Use of Resources (UoR) score is 3: Exceeds minimum requirements – performs well (page 8-10).
- In our Report to Management on the Statement of Accounts 2008/09 we made several recommendations for areas of improvement identified during the audit, none of which were significant. We also reviewed internal financial controls at the Council in March and April 2009 and issued our *'Report to Management – Review of internal financial controls 2008/09'* as a result. We are pleased that management has agreed to take action to address the issues raised and we will follow up on the progress that has been made during our audit work in 2009/10 (page 6 & 10).
- CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Council Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. The Council will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the new Code (page 6-7).
- The expected state of public finances during 2010 to 2015 is likely to result in a difficult period for local government, which will require careful management of budgets, identification of efficiency savings and new ways of working to deliver more, or the same level of service, for less input (page 7).
- We are pleased to note the overall good performance of the Council in relation to both the audit of the accounts and Use of Resources. In addition, we acknowledge the good relationship with the Council in respect of the consideration and discussion of our reports, as well as the subsequent actions to address and follow up on the progress of identified issues made during our audit work in 2008/2009.

# Introduction

## The purpose of this letter

The purpose of this letter is to provide a high level summary of the results of the 2008/09 audit work we have undertaken at Fenland District Council that is accessible for members and other interested stakeholders.

- 1 We have already reported the detailed findings from our audit work to those charged with governance in the following reports:
  - Report to Management – Review of internal financial controls 2008/09 (August 2009);
  - Report to Management on the Statement of Accounts 2008/09 (October 2009);
  - Report to those charged with Governance (ISA (UK&I) 260) (September 2009);
  - Audit opinion for 2008/09 financial statements, incorporating the conclusion on Use of Resources (September 2009); and
  - Report on the results of our Use of Resources Review (October 2009).

The matters reported here are those that we consider are most significant for the Council and a summary of the key recommendations that we have made

can be found on page 12.

## Scope of work

Our audit work is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Council is responsible for preparing and publishing its financial statements, including the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Council's Annual Governance Statement;
- forming a conclusion on the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Our 2008/09 audit work has been undertaken in accordance with the Audit Plan that we presented to the Council on 17 February 2009.

# Key matters arising from the audit of the accounts

## Introduction

- 2 The Audit Commission Code of Practice requires us to form an opinion as to whether the Statement of Accounts presents fairly the financial position of the Council and its income and expenditure for the year, and whether they have been prepared properly in accordance with relevant legislation and applicable accounting standards. This section summarises the results of our audit work in relation to the Statement of Accounts for the year ended 31 March 2009.

## Accounts preparation and audit process

- 3 We audited the Council's accounts in line with approved Auditing Standards and issued an unqualified audit opinion on 30 September 2009. This followed the Council's approval of the accounts in June 2009, before the 30 June 2009 statutory deadline.
- 4 We identified the following key points from our audit of accounts:
  - There were a number of disclosure related matters identified during our audit, of which the large majority were adjusted for in the final version of the accounts; and
  - No material misstatements were identified in the draft accounts.
- 5 Overall, the Council produced a high quality draft set of accounts that was provided for audit in accordance with the timetable agreed with officers. In addition, the Council's working papers were prepared to a

high standard. As a result, the Council were assessed at level 3 ("consistently above minimum requirements – performing well") under the Audit Commission's Use of Resources assessment key line of enquiry 1.1, namely *"The Council produces annual accounts in accordance with relevant standards and timetables, supported by comprehensive working papers"*.

- 6 In addition to the above, during our audit we identified a number of less significant matters which we have reported and raised recommendations that management will need to consider when producing future years' accounts, or where improvements can be made.
- 7 The Finance Team are to be congratulated on their achievement.

## Transition to International Financial Reporting Standards (IFRS)

- 8 CIPFA has issued the Exposure Draft and Invitation to Comment on the Code of Practice on Local Authority Accounting in the United Kingdom 2010. This will apply to accounting periods starting on or after 1 April 2010. The new Code is the first to be prepared under IFRS. Because of the need to have comparative information for the first set of full IFRS accounts the effective date of the transition is 1 April 2009.
- 9 It will be important that the Council understands and calculates the impact of IFRS on its financial reporting arrangements at an early stage to enable the 2010/11 budget to be prepared on an appropriate basis.
- 10 An initial IFRS Impact Assessment has been undertaken for the Council

by external consultants, which will be shared by the Finance Team with us in due course. The Council will need to ensure that it has a good grasp of the changes to accounting requirements under the new Code, and that it has robust plans in place to enable collection and processing of the information needed to comply with the relevant guidance.

- 11 We will liaise with the Finance Team on the implementation of the new requirements as part of our 2009/10 audit.

**Financial standing**

- 12 In 2008/09 the Council had an underspend of some £47k (underspend of £149k in 2007/08). The underlying reasons for the underspending in 2008/09 have previously been reported in detail to the Cabinet in June 2009. The main factors were due to reduced operating costs, higher than anticipated investment income and higher income from the Council's VAT sharing arrangement.
- 13 Overall the Council's total reserves showed a small increase in the year, £4.194m at 31 March 2009, compared with £4.118m for the previous year.
- 14 As part of the budget strategy for 2008/09 the Council agreed that it would be prudent to set a target minimum level of General Fund balance of £1.5m in the medium term. The balance on the general reserve as at 31 March 2009 amounts to £2.515m (£2.468m at 31 March 2008).

Reserves	31 March 2007 (£m)	31 March 2008 (£m)	31 March 2009 (£m)
General Fund	2.319	2.468	2.515
Earmarked Reserves	1.227	1.650	1.679
<b>TOTAL</b>	<b>3.546</b>	<b>4.118</b>	<b>4.194</b>

- 15 In overall terms, the Council continues to maintain good control over its financial resources and this is reflected in its Use of Resources assessment scores (see the next section).

**Nene Waterfront Regeneration Project**

- 16 The Council's Nene Waterfront Regeneration Project consists of several different, but related projects and involves multi-agency partnership funding. As part of our audit work we reviewed the overall project management arrangements that the Council has put in place, as well as the accounting treatment of associated transactions for the project. We did not identify any issues as a result of our review and we will continue to liaise with the Finance Team in respect of the Council's plans going forward.

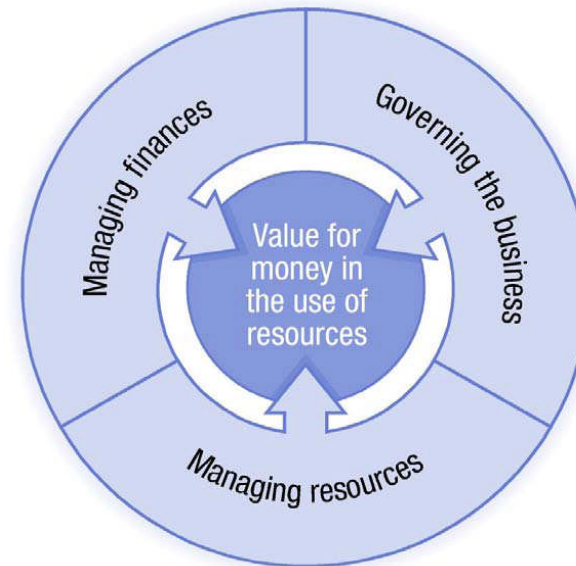
**Financial outlook**

- 17 The national and global economy has continued to provide challenges to all aspects of society, including the Council. The expected state of public finances during 2010 to 2015 is likely to result in a difficult period for the public sector, which will require careful management of budgets, identification of efficiency savings and new ways of working to deliver more, or the same level of service, for less resource. The Council has commenced work on assessing the potential impact on the Council's finances and it will be important for the Council to continue to carefully monitor its performance against budget in 2009/10 and set a budget for 2010/11 which is based upon a prudent analysis of risk and the economic environment.

# Key matters arising from the consideration of the Council's Use of Resources

## Use of Resources

- 18 From April 2009, the Audit Commission has been implementing the comprehensive area assessment (CAA), jointly with the other public service inspectorates. The audit year 2008/09 is the first year of the transition to CAA. Our use of resources judgements in 2008/09 will therefore input into the first results of CAA which the Audit Commission will report on in December 2009, as well as act as the basis for our value for money conclusion.
- 19 We acknowledge and are grateful for the input provided from the Council during this first year of the new, tougher assessment.
- 20 We have assessed the Council's arrangements against a series of new Audit Commission Key Lines of Enquiry (KLoEs) grouped into three themes which form the Use of Resources framework, namely;
- Managing finances
  - Governing the business.
  - Managing Resources.
- 21 This year's UoR assessment is therefore not comparable with previous UoR assessments since the focus has changed from assessing not only whether key arrangements are in place, but the impact of those Council arrangements in practice, as demonstrated by evidence of relevant outcomes.



- 22 We evaluated the Council's arrangements against criteria set by the Audit Commission in the underlying KLoEs in order to reach a score for each based on the following:
- 1 Failure to meet minimum requirements – inadequate performance;

- 2 Meets only minimum requirements –performs adequately
- 3 Exceeds minimum requirements –performs well; or
- 4 Significantly exceeds requirements – performs excellently.

The scores have been subject to national and local quality assessment. The scores for these KLoEs then determine the overall score for each area, using rules issued by the Commission. The Commission in turn then determines an overall score for the Council.

- 23 The Audit Commission has issued an overall organisational score of 3 (Exceeds minimum requirements - performs well) for the Council. The Council should be congratulated for this achievement.
- 24 The following tables set out the results of our assessment based on the Audit Commission’s KLoEs and the areas of audit focus and evidence.

### Managing Finances

25 We have scored the KLoEs for managing finances reporting as follows:

Key Line of Enquiry		Score
1.1	The organisation plans its finances effectively to deliver its strategic priorities and to secure sound financial health	3
1.2	The organisation has a sound understanding of its costs and performance and achieves efficiencies in its activities	3
1.3	The organisation’s financial reporting is timely, reliable and meets the needs of internal users, stakeholders and local people	3

### Governing the business

26 We have scored the KLoEs for governing the business as:

Key Line of Enquiry		Score
2.1	The organisation commissions and procures quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money	3
2.2	The organisation produces relevant and reliable data and information to support decision making and manage performance	2
2.3	The organisation promotes and demonstrates the principles and values of good governance	3
2.4	The organisation manages its risks and maintains a sound system of internal control	3

### Managing resources

27 We have scored the KLoEs for managing resources as:

Key Line of Enquiry		Score
3.1	The organisation makes effective use of natural resources	n/a*
3.2	The organisation manages its assets effectively to help deliver its strategic priorities and service needs	n/a*
3.3	The organisation plans, organises and develops its workforce effectively to support the achievement of its strategic priorities	3

\* KLoE 3.1 and 3.2 are not specified KLoEs for 2008/09 for District Councils and so the Council were not assessed against these in 2008/09. The Council will be assessed against KLOE 3.1 (Natural Resources) in 2009/10 for the first time.

### Conclusion on Use of Resources

28 We were also required to issue a conclusion on the adequacy of the Council’s arrangements for ensuring economy, efficiency and

effectiveness in its use of resources.

- 29 We issued an unqualified conclusion on the Council's arrangements for its Use of Resources on 30 September 2009.

#### **Annual Governance Statement**

- 30 Local Authorities are required to produce an Annual Governance Statement (AGS) which is consistent with guidance issued by CIPFA / SOLACE. The AGS was included in the financial statements.
- 31 We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE guidance and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

#### **Internal Financial Controls**

- 32 We undertook a review of Internal Financial Controls at the Council during March and April 2009 and issued our 'Report to Management – Review of internal financial controls 2008/09' in July 2009. There were no significant issues identified and management agreed to take action to address the recommendations we made. We will follow up on the progress that has been made during our audit work in 2009/10.
- 33 We seek to work with Internal Audit so that together we can co-ordinate the tests of controls performed by Internal Audit and us to ensure that we can place maximum reliance on the work undertaken by Internal Audit and avoid duplication. As part of our work we noted that not all of Internal Audit's planned key financial systems audits for 2008/09 had been completed and we agreed the key controls that we would like to be tested by Internal Audit going forward in order to assist our work.

#### **Certification of grant claims**

- 34 We have certified the relevant claims and returns required by grant paying bodies during 2008/09, with the exception of the Housing and Council Tax Benefits claim, which is due for submission on 30 November 2009.

- 35 Matters arising from this certification work will be communicated to the Council separately. However, the most significant matters arising to date relate to the Housing and Council Tax Benefits claim where we noted a number of areas requiring the Council to undertake further testing for us to review in respect of:

- Insufficient evidence on claims tested to support the calculation of the benefits; and
- Incorrect information used in the calculation of benefits tested.

- 36 We have not noted any issues in relation to the overall management arrangements in respect of data quality within this department, nor any significant issues arising from our internal financial controls work on benefits. However, we recommend that the Council continues with its program of spot checks of claims, focusing on ensuring that adequate supporting evidence is held and is accurately input to the housing benefits system.

#### **Treasury Management**

- 37 As part of our work on Use of Resources we carried out a programme of work on Treasury Management. This piece of work was mandated by the Audit Commission. No key issues were identified. We will continue to work with the Council's Finance Team and Treasurer during the 2009/10 audit and further review arrangements in the light of CIPFA guidance when published.

#### **Members' Allowances**

- 38 As part of our work on Use of Resources we reviewed the Council's scheme for members' allowances. We reviewed whether the Council is complying with the regulations applying to Members' Allowances schemes, and whether they have made the required disclosures in respect of the scheme. We did not identify any issues as a result of our review.

### **National Fraud Initiative**

- 39 We assessed the Council's arrangements and actions in respect of the National Fraud Initiative. This piece of work was mandated by the Audit Commission. No key issues were identified.

# Summary of recommendations

Page	Recommendation	Management Response	Target Implementation Date
6-7	The Council will need to ensure that it continues to have a good grasp of the changes to accounting requirements under the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010, and that it continues to have robust plans in place to enable collection and processing of the information needed to comply with the relevant guidance.	Agreed – Implementation plan being produced and will be shared with PWC. Corporate Governance Committee receiving presentation on this at next meeting.	Ongoing
7	The expected state of public finances during 2010 to 2015 is likely to result in a difficult period for local government. Whilst the Council has commenced work on assessing the potential impact on the Council's finances, it will be important for the Council to continue to identify efficiency savings and new ways of working to deliver more, or the same level of service, for less input.	Agreed – The Council's budget and medium term financial strategy will look to address the future challenges in local government.	February 2010
8-10	We recommend that the Council continues to give consideration to demonstrating evidence of outcomes in respect of each of the key Use of Resources themes of: <ul style="list-style-type: none"> <li>• Managing Finances;</li> <li>• Governing the business; and</li> <li>• Managing Resources.</li> </ul>	Agreed – will be part of the next assessment process.	March 2010
10	The Council should continue with its programme of spot checks of Housing and Council Tax Benefits claims, focusing on ensuring that adequate supporting evidence is held and is accurately input to the respective systems.	Agreed – this practice will continue.	Immediate
10	We recommend that the Council continues to keep its Treasury Management arrangements under review and takes action as necessary to address any risks as soon as they are identified.	Agreed – we will act on new guidance from CIPFA and the Department of Communities and Local Government regarding treasury management arrangements.	Immediate

*In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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