

Annual Audit Letter

Eden District Council

Audit 2009/10

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Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Key messages

This report summarises my findings from the 2009/10 audit. My audit consists of:

- **the audit of your financial statements (pages 4 and 5); and**
- **my assessment of your arrangements to achieve value for money in your use of resources (pages 6 and 7).**

In undertaking my audit I have also considered the major challenges the Council faces in 2010/11 and in future years (pages 9 and 10).

Audit opinion and financial statements

1 I issued an audit report including an unqualified opinion on the financial statements on 27 September 2010, within the statutory deadline.

Value for money

2 I assessed your arrangements to secure economy, efficiency and effectiveness in your use of resources against criteria specified by the Audit Commission. I issued an unqualified value for money conclusion on 27 September 2010, stating the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

2010/11 and future challenges

Reduction in government funding

3 The Council has a sound track record of managing its spending within the available resource. This has resulted in year-on-year savings being made and efficiency targets being exceeded.

4 Actions taken by the Council so far have reduced costs and increased income. This includes the sharing of services with other councils to reduce costs and the additional income that will be generated from the Penrith New Square's development.

5 Both the recently announced funding reductions from central government and the impact of the economic downturn locally will place the Council under unprecedented financial pressures over the next few years. However the Council's reserves at the 31 March 2010 remained at a healthy level because of the action that has already been taken and the Council has only £0.5 million of borrowings.

6 Despite this, the Council needs to maintain the momentum in reducing its costs and producing extra income to ensure that it remains financially viable over the medium term. Inevitably this will require members to make difficult, and potentially controversial, decisions.

Shared services

7 As part of its 'Addressing the Budget Deficit' (ABD) exercise the Council identified that the sharing of service provision with other councils provided a good opportunity for reducing costs and improving services. The Council intends to share several major services with South Lakeland District Council (SLDC) and others are being considered.

8 However the Council does not have an overall strategy that explains what services the Council wishes to share nor with who. Without such a strategy the savings anticipated from the sharing of services may not now be realised.

Penrith New Squares (PNS) development

9 The scale and complexities of the PNS development would be significant and challenging for many councils. For your Council, one of the smallest district councils in England, it remains a challenging and ambitious scheme.

10 The decision of one of the largest UK supermarket chains to complete this development is welcomed by the Council, particularly within the context of the current economic recession. It should mean that the Development is completed within the agreed new timescale and the planned income will begin to flow to the Council.

11 The Council has safeguarded the Council's assets when the original Developer was unable to proceed. However I did identify a number of areas where the Council's project management arrangements must be strengthened for this and any future major projects. The Council accepted my recommendations and has put them in to effect. Having considered the representations that I received from local people I did not need to take any other action.

Financial statements and annual governance statement

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

I gave an unqualified opinion on the Council's 2009/10 financial statements on 30 September 2010, within the statutory deadline.

Overall conclusion from the audit

1 I issued an audit report including an unqualified opinion on the financial statements on 27 September 2010, within the statutory deadline.

2 The financial statements presented for audit did not contain any material errors. They were prepared to a generally good standard and supported by good quality working papers. I identified a number of presentational errors and omissions from disclosure notes. These errors did not impact on the overall financial position of the Council and management agreed to amend the financial statements for all identified errors and omissions.

Significant weaknesses in internal control

3 I identified two areas of significant weakness in internal control.

- The Asset Register does not contain sufficient and accurate information to allow the Council to properly manage and account for its fixed assets.
- The Council did not register land it bought during the year with the Land Registry in a timely way.

4 I have also reported to the Accounts and Governance Committee that some of the recommendations I made in my 2008/09 audit have not been actioned as agreed. The Accounts and Governance Committee has undertaken to ensure that these weaknesses are addressed.

Implementation of International Financial Reporting Standards (IFRS)

5 The Council has to prepare its 2010/11 accounts under new International Financial Reporting Standards (IFRS). Some of the preparatory work has been completed, including restatement of the financial position at 1 April 2009. Officers will prepare the Skeleton accounts and the new accounting policies for 2010/11 by the end of December 2010. The Accounts and Governance Committee has also been provided with updates on progress.

Value for money

I considered whether the Council is managing and using its money, time and people to deliver value for money.

I assessed your performance against the criteria specified by the Audit Commission and have reported the outcome as the value for money (VFM) conclusion.

2009/10 use of resources assessments

6 At the end of May 2010, the Commission wrote to all chief executives to inform them that following the government's announcement, work on the Comprehensive Area Assessment (CAA) would cease with immediate effect. The Commission would also no longer issue scores for its use of resources assessments.

7 However, I am still required by the Code of Audit Practice to issue a value for money conclusion. I have therefore used the results of the work completed on the use of resources assessment up to the end of May to inform my 2009/10 conclusion.

8 I report the significant findings from the work I have carried out to support the vfm conclusion.

VFM conclusion

9 I assessed your arrangements to achieve economy, efficiency and effectiveness in your use of money, time and people against criteria specified by the Audit Commission. The Audit Commission specifies each year, which Key Lines of Enquiry (KLOE) are the relevant criteria for the VFM conclusion at each type of audited body.

10 This is a summary of my findings that were set out in more detail in my Annual Governance Report that was presented to the Accounts and Governance Committee on 23 September 2010.

Criteria	Adequate arrangements?
Managing finances	
Does the organisation plan its finances effectively to deliver its strategic priorities and secure sound financial health?	Yes
Does the organisation have a sound understanding of its costs and performance and achieve efficiencies in its activities?	Yes
Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?	Yes
Governing the business	
Does the organisation commission and procure quality services and supplies, tailored to local needs, to deliver sustainable outcomes and value for money?	Yes
Does the organisation produce relevant and reliable data and information to support decision making and manage performance?	Yes
Does the organisation promote and demonstrate the principles and values of good governance?	Yes
Does the organisation manage its risks and maintain a sound system of internal control?	Yes
Managing resources	
Is the organisation making effective use of natural resources?	Yes

11 I issued an unqualified conclusion on the Council's arrangements. This means I consider that it has satisfactory arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

12 This was the first year that I considered the Council's use of natural resources. My work identified that the Council is performing well in its approach to managing the use of natural resources. It knows its main sources of consumption of natural resources and energy, has quantified these and has a strategy in place to reduce use and minimise impact on the environment. The plans within this strategy are having impact.

National Fraud Initiative

13 The National Fraud Initiative is a computerised data matching exercise designed to identify overpayments to suppliers and benefit claimants and to detect fraud perpetrated on public bodies. The data matches from the current exercise were released to participating bodies in February 2009.

14 The Council has made effective use of the NFI data. All the matches have been checked. Whilst no specific frauds have been identified, some payment errors have been found. These relate to both housing benefit claims and claims for single person's council tax discount, totalling £13,856. In addition, 114 concessionary bus passes were also cancelled to prevent any future inappropriate use.

Approach to local value for money work from 2010/11

15 Given the scale of pressures facing public bodies in the current economic climate, the Audit Commission has been reviewing its work programme for 2010/11 onwards. This review has included discussions with key stakeholders of possible options for a new approach to local value for money (VFM) audit work. The Commission aims to introduce a new, more targeted and better value approach to our local VFM audit work.

16 My work will be based on a reduced number reporting criteria, specified by the Commission, concentrating on ensuring that the Council has proper arrangements in place to:

- secure financial resilience; and
- challenge how it secures economy, efficiency and effectiveness.

17 I will determine a local programme of VFM audit work based on my audit risk assessment, informed by these criteria and my statutory responsibilities. I will no longer be required to provide an annual scored judgement relating to my local VFM audit work. Instead I will report the results of all my local VFM audit work and the key messages for the Council in my annual report to those charged with governance and in my annual audit letter.

2010/11 and future challenges

Introduction

18 In 2010/11 the Council faces immediate and significant challenges all of which are connected in some way to the impact of the economic downturn.

These include:

- responding to the reduction in Government funding;
- moving the Council's shared service agenda forward; and
- ensuring that the Penrith New Squares development progresses in line with the timetable.

Reduction in government funding

19 The Council has a track record of managing its spending within the available resources. This has resulted in year-on-year savings being made and efficiency targets being exceeded.

20 Actions taken by the Council so far have reduced costs and increased income. This includes the sharing of services with other councils to reduce costs and the additional income that will be generated from the Penrith New Square's development.

21 The recent Comprehensive Spending Review (CSR) announcement of funding cuts for local government of about 7 per cent per year over the period 2011 to 2015, increases the pressure on the Council's finances. This, and the impact of other issues arising from the economic downturn, will place the Council under unprecedented financial pressures. However the Council's reserves at the 31 March 2010 remained at a healthy level as a result of the action that has already been taken. The Council has only £0.5 million of borrowings.

22 The Council needs to maintain the momentum in reducing costs and producing extra income to ensure that it continues to be financially viable over the medium term. Inevitably this will require members to make difficult, and potentially controversial, decisions.

Shared services

23 As part of its 'Addressing the Budget Deficit' (ABD) exercise the Council identified that the sharing of service provision with other councils provided a good opportunity for reducing costs and improving services. The Council intends to share several major services with South Lakeland District Council (SLDC) and others are being considered.

24 However the Council does not have an overall strategy that explains what services the Council wishes to share nor with who. Without such a strategy the savings anticipated from the sharing of services may not now be realised.

Penrith New Squares (PNS) development

25 The scale and complexities of the PNS development would be significant and challenging for many councils. For your Council, one of the smallest district councils in England, it remains a challenging and ambitious scheme.

26 In 2008 the Developer was unable to continue with the development because of the withdrawal of its funding by its Bank. The Council continued to work with Sainsbury's, the supermarket provider selected by the Developer, to see if they wished to 'step-in' to the contract. They did so, in May 2010, and the scheme is once again progressing.

27 The decision of one of the largest UK supermarket chains to complete this development has been welcomed by the Council, particularly within the context of the current economic recession. It should mean that the Development is completed within the agreed new timescale and the planned income will begin to flow to the Council.

28 I presented the findings from my review of the progress on this scheme to the Council in June 2010. I found the Council had safeguarded its assets when the Developer had been unable to proceed. However, there are a number of areas where the Council's project management arrangements must be strengthened for this and any future major projects. Having considered the representations that I received from local people I did not need to take any other action.

Closing remarks

Audit reports

29 I have discussed and agreed this Letter with the Chief Executive. I will present this letter at the meeting of the Council on 25 November 2010.

30 Full detailed findings, conclusions and recommendations in the areas covered by our audit were included in the reports I issued to the Council during the year.

Report	Date issued
Annual audit fee 2009/10 letter	April 2009
Penrith New Squares - 'Learning the lessons' Review	June 2010
Opinion audit plan	July 2010
Annual governance report	September 2010
Auditor's report giving an opinion on the financial statements	27 September 2010
Value for money conclusion	27 September 2010
Final Accounts Memorandum	October 2010
Annual audit letter	November 2010

Audit fees

31 During the year I agreed an increase in the 2009/10 Audit Fees. This reflected the extra work associated with concerns raised with me from the public on the Penrith New Squares (PNS) development. It also included the cost of the PNS - 'Learning the Lessons' review that I undertook as part of my assessment of your management arrangements. The total extra fee for this is £17,750. Appendix 1 provides further detail.

The Audit Commission

32 The Secretary of State for Communities and Local Government has announced the proposed abolition of the Audit Commission and the transfer of its audit practice to the private sector. This will be from 2012/13 at the earliest and is subject to legislation.

33 Our priority is to ensure our professional standards and commitment will be maintained. You will see no decline in customer service and audit quality.

34 We are working to develop an independent audit practice to continue beyond the abolition of the Audit Commission, including the option of a potential mutualisation or buy-out. Whatever model we adopt, we will remain committed to providing excellent service to our existing clients.

Concluding comments

35 The Council has taken a positive and helpful approach to our audit. I wish to thank the Council staff for their support and co-operation during the audit.

Karen Murray
District Auditor

November 2010

Appendix 1 Audit fees

	Actual (£)	Proposed (£)	Variance (£)
Financial statements and annual governance statement	59,546	59,546	0
Value for money	41,238	30,238	11,000
Challenge	6,750	0	6,750
Total audit fees	107,534	89,784	17,750
Non-audit work	0	0	0
Total	107,534	89,784	17,750

During the year I agreed an increase in the 2009/10 Audit Fees of £17,750. This reflected the additional work associated with challenges raised with me from the public with regards to the Penrith New Squares (PNS) development. It also included the cost of the PNS - 'Learning the Lessons' review that I undertook as part of my assessment of your management arrangements.

Appendix 2 Glossary

Annual governance statement

Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

It comprises the systems and processes, cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and where appropriate, lead their communities.

The annual governance statement is a public report by the Council. It explains the extent to which the Council complies with its own local governance code, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

Audit opinion

On completion of the audit of the accounts, auditors must give their opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question;
- whether they have been prepared properly, following the relevant accounting rules; and
- for local probation boards and trusts, on the regularity of their spending and income.

Financial statements

The annual accounts and accompanying notes.

Qualified

The auditor has some reservations or concerns.

Unqualified

The auditor does not have any reservations.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of money, people and time.

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