

The Audit Findings Report for Eden District Council

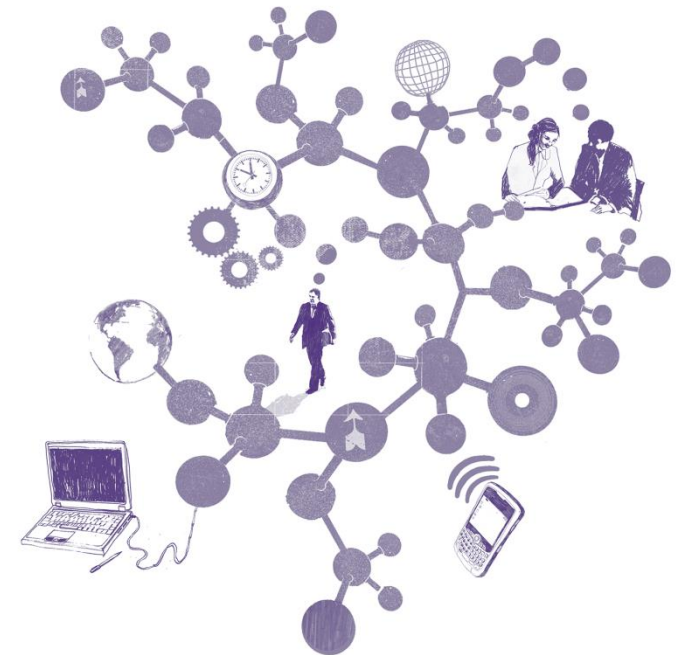
Year ended 31 March 2017

September 2017

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21 September 2017

Dear Members of the Accounts and Governance Committee

Audit Findings for Eden District Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance, which in the case of Eden District Council is the Accounts and Governance Committee, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements and giving a value for money conclusion. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Gareth Kelly
Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

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06. Communication of audit matters

We plan to give an unmodified opinion on the financial statements.

We are satisfied that in all significant respects, Eden District Council put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017. That said, there are significant matters the Council needs to address to improve the corporate governance and financial modelling arrangements around the recently formed wholly owned subsidiary - Heart of Cumbria Limited.

Purpose of this report

This report highlights the key issues affecting the results of Eden District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year ended 31 March 2017 and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 23 February 2017, with exception of expanding the sub criteria covered on the Heart of Cumbria Limited significant VFM identified risk. This risk has now been assessed against all 3 sub criteria to consider properly informed decisions, deployed resources and working effectively with partners to achieve planned and sustainable outcomes for taxpayers and local people.

Our audit is substantially complete although we are finalising our procedures in the following areas;

- final reviews by the Engagement Lead and Audit Manager
- review of the final version of the financial statements and revised Narrative Statement and Annual Governance Statement;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers well in advance of the 30 June 2017 statutory deadline. The working papers to support the accounts were not produced in all cases to the expected standard.

Key audit and financial reporting issues

Financial statements opinion

Subject to the completion of our final procedures, we anticipate providing a unqualified audit opinion in respect of the financial statements as outlined in Appendix B.

We have identified no adjustments affecting the Council's reported financial position as recorded in the draft financial statements for the year ended 31 March 2017 with net expenditure at the Cost of Services line of £7.6 million.

We have identified an error on the Cash Flow Statement. The sale of short-term investments was input as £14.316m, however it should have been £11m. The impact is to amend the 'Cash flow from operating activities from (£2.439m) to £0.697m, whilst investing activities is amended from £2.596m to (£0.540m). There is no impact on the other primary statements including Comprehensive Income and Expenditure Statement or Balance Sheet. One other non trivial error related to a debtor balance with Cumbria County Council, which was incorrectly set up as a creditor balance for LEP monies. This reduced debtors and creditors by £75,000 and therefore had no impact on the overall financial balance position on Balance Sheet.

Any other adjustments identified related to disclosure notes only, and do not impact upon the primary statements. Key disclosure note adjustments identified included:

- 'Telling the Story' disclosures required strengthening with more details of this is on pages 14 and 22;
- three accounting policies required updating;
- clarifying some of the information disclosed within the notes, for example in relation to how comparatives were recorded;
- correcting the information in the notes for the error in the cash flow statement; and
- correcting some misstated financial information within the notes, for example the actual return on the (pension) scheme assets.

Further details of disclosure note adjustments are set out in section two of this report at pages 22 to 24. We have also recommended a number of adjustments to improve the presentation of the financial statements.

Other key messages arising from our audit of the Council's financial statements are:

- the Council has achieved an early closedown, with accounts authorised for issue on 31 May 2017, which is one month ahead of the specified deadlines;
- the standard of supporting papers were in part inadequate and response time to resolve audit queries also contributed to us not achieving an earlier audit closure;
- there have been a relatively high number of post audit amendments made to the disclosure notes; and
- there are three non-trivial errors that management have decided not to amend and these are detailed on page 21 of this report.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement (AGS) and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

We are currently concluding our review of the Council's Narrative Statement and AGS to ensure that they are consistent with the audited financial statements and that the disclosures included in the Narrative Statement are in line with the requirements of the CIPFA Code of Practice.

The draft AGS received for audit was not prepared in accordance with the 'Delivering Good Governance in Local Government: Framework (2016)' requirements. The AGS required updating to align it to the revised principles of the Good Governance Framework.. The revised AGS has also been updated to show two significant governance weaknesses on the wider governance arrangements and financial modelling on Heart of Cumbria Limited related activities, and on making sure the Council fully complies with procedures as set out in its Confidential Reporting Code. These changes are detailed further in section two of this report.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention, with the exception of the Council ensuring it fully complies with its procedures as set out in its Confidential Reporting Code.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements to secure economy, efficiency and effectiveness in its use of resources. However, there are significant matters the Council needs to address to improve the corporate governance and financial modelling arrangements around the recently formed wholly owned subsidiary - Heart of Cumbria Limited.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

Further details of our work on other statutory powers and duties is set out in section four of this report.

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. At present our work on this claim is in progress and is not due to be finalised until 30 November 2017.

To date, there are no issues to report from the work completed. We will report the final outcome of this certification work through a separate report to the Accounts and Governance Committee in February 2018.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Director of Finance.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

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05. Fees, non audit services and independence

06. Communication of audit matters

We identified one primary statement classification misstatement on the Cash Flow Statement, but this did not impact upon the net reserves position.

We found a number of errors within the disclosure notes, the majority of which have been amended by management.

The AGS presented for audit was not prepared in line with the guidance set out in ‘Delivering Good Governance in Local Government: Framework (2016)’ which presents a revised set of Good Governance Principles. The AGS has subsequently been revised to ensure it is in line with these new principles and to show two significant governance weaknesses on the wider governance arrangements and financial modelling on Heart of Cumbria Limited related activities and on making sure the Council fully complies with procedures as set out in its Confidential Reporting Code .

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £0.466 million (being 2% of estimated gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and we have revised our overall materiality to £0.433 million (being 2% of actual gross revenue expenditure). This is as a result of the actual gross revenue expenditure being lower than the estimated expenditure level, which the original materiality level was based upon.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We reported in our audit plan the amount below which misstatements would be clearly trivial to be £23,000. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation to now be £22,000.

As we reported in our audit plan, we identified the following items where we decided that lower materiality levels were appropriate. In our audit plan we reported that cash and cash equivalents had a lower materiality, however this is not applicable, as the cash and cash equivalents balance is material in line with the above values. We are now also reporting related party transactions as a balance of lower materiality due to the public interest in these disclosures, and the statutory requirement for them to be made.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 for senior officers' remuneration £20,000 for exit package costs (full cost including actuarial strain)
.Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 Individual misstatements will be assessed for materiality to either party involved in the transaction.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards as outlined below.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Eden District Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition, • opportunities to manipulate revenue recognition are very limited, and • the culture and ethical frameworks of local authorities, including Eden District Council, means that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed entity level controls; • tested journal entries; • reviewed accounting estimates, judgements and decisions made by management, and • reviewed unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Audit findings against significant risks continued

We have also identified one other significant risk of material misstatement from our understanding of the entity. We set out below the work we have completed to address this risk below.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements. In response to the move to earlier close-down, there is a greater degree of estimation in the information provided to the actuary.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed the controls put in place by management to ensure that the pension fund liability is not materially misstated and walkthrough tested these controls; • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out; • undertook procedures to confirm the reasonableness of the actuarial assumptions made; and • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p>	<p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle the payroll system; • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • substantive testing of year end payroll accruals; • testing of salary payments; and • trend analysis of payroll costs over the period and year-on-year analysis. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p>	<ul style="list-style-type: none"> • We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle; • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • reviewed accounting estimates, judgements and the accruals accounting process including the processes for accruing goods received not invoiced; • tested post year end payments to confirm the completeness of accruals; and • tested expenditure and accruals to goods receipt and subsequent invoice and payment. 	<p>Our audit work assured us that operating expenses are materially correct. One error was found in relation to creditors and a further error was identified in relation to expenditure. Neither issue affected the overall financial position of the Council</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Audit findings against other risks continued

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Property, Plant and Equipment (PPE) and investment properties</p>	<p>Our work addressed the risk that the Council's property, plant and equipment and investment property portfolio valuation is not materially misstated.</p> <p>The Council revalues its assets on a rolling basis, and its investment property on an annual basis in line IAS 40. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of any management experts used; • for any valuation undertaken: <ul style="list-style-type: none"> - reviewed the instructions issued to valuation experts and the scope of their work; - discussed with the valuer about the basis on which the valuation is carried out and challenged the key assumptions; - reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; and • evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these are not materially different to current value. 	<p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p> <p>We reviewed the instruction to the valuer. This stated the following: <i>'Paragraph 31 of IAS16 states that "revaluations of Non Current Assets shall be made sufficiently regularly to ensure that the carrying amount does not differ materially from that which would be determined using fair value". I therefore require your advice as to whether the value provided in your report as at March 2016 remains valid. If there has been material change in your opinion, I will require this to be quantified to disclose accordingly.'</i></p> <p>We identified two issues in relation to this:</p> <ul style="list-style-type: none"> • It did not give an indication of materiality • The Code requires the use of the fair value model. The fair value must reflect market conditions at the end of the reporting period and thus annual revaluations will be necessary unless the authority can demonstrate that the carrying value is not materially different from the fair value at that date (paragraph 4.4.2.12 of the Code). <i>The request did not separately request a revaluation of investment properties.</i> <p>The Council had to request clarification to ensure that the response to the letter included confirmation of investment property valuations. In future the Council should request a separate valuation of investment properties unless it can be clearly demonstrated that the carrying value is not materially different from the fair value. We would expect to see clear evidence to support this assertion.</p>

Audit findings against other risks continued

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Description	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA has introduced the 'Telling the Story' project, with the aim to streamline the financial statements and improve accessibility to the user. This has resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period restatement to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements; • reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Authority's internal reporting structure; • review the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS); • tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES; • tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; • tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and • reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Two disclosures required by the Code were omitted in the draft financial statements.</p> <p>These were: a prior period restatement note showing the movement in the CIES year-on-year, and a note showing the segmental analysis of income and expenditure</p> <p>Our audit work has not identified any significant issues in relation to the risk identified, other than the disclosure issues noted.</p>



Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that we agree with management's assessment of the Council as a going concern.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue from provision of services is recognised when the percentage completion of the transaction can be reliably measured and it is probable that the economic benefits or service potential associated with the transaction will flow to the Council. Grants and contributions are recognised when there is reasonable assurance the monies will be received and that any conditions attached will be met. Expenditure is recognised when goods or services are received rather than when payments are made. 	Our review of revenue recognition policies has not highlighted any issues which we wish to bring to your attention.	 Green
Judgements and estimates	<p>Key estimates and judgements not already included within other sections of this report are:</p> <ul style="list-style-type: none"> useful life of PPE; debtors and creditors; provisions and contingent liabilities, and accounting for NNDR appeals. 	<p>Work on other judgements and estimates has not highlighted any issues which we wish to bring to your attention.</p> <p>Work on IAS19 and asset valuation judgements and estimates are reported on pages 11 and 13.</p>	 Green



Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Going concern</p>	<p>The Director of Finance, as the s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	<p style="text-align: center;">  Green </p>
<p>Other accounting policies</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Accounting Policy 9 – Financial Instruments: The original policy did not include references to: Creditors; Investments; or Debtors. These are all material balances and therefore required inclusion.</p> <p>Accounting Policy 17 PPE – Recognition: The Accounting Policy required amendment to describe what is done to ensure that PPE valuations are materially correct in years when the full valuation is not completed. Two items were removed as they were not PPE accounting policies and related to results from valuation differing from assumptions and the statement on Penrith New Squares.</p> <p>Accounting Policy 25 – Prior Period Adjustment (PPA): Incorrectly stated that there was no PPA in 2016/17 and therefore needed to be removed.</p>	<p style="text-align: center;">  Amber </p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Accounts and Governance Committee and we have not been made aware of any incidents in the period, and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	The Council have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	A standard letter of representation has been requested from the Council.
5.	Confirmation requests from third parties	We requested direct confirmations for loans, investments and bank accounts. This permission was granted by management and the requests were sent. We are following up the confirmations that are still outstanding.
6.	Disclosures	Our work on accounting policies on page 15 discloses the omissions in accounting policies, and page 14 details the disclosures omitted based on the 'Telling the Story' changes to the accounts. The full detail of any amendments within existing disclosure notes are detailed on pages 22 to 24

Other communication requirements continued

	Issue	Commentary
7.	<p>Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement (AGS) does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; and • the information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading. <p>The Annual Governance Statement was amended to improve signposting to the new principles in the ‘Delivering Good Governance in Local Government: Framework (2016)’. Furthermore we noted that the Annual Governance Statement did not include any significant governance issues. It is our view that the Council has experienced some significant governance challenges. These challenges include the:</p> <ul style="list-style-type: none"> • establishment of a wholly owned company, the Heart of Cumbria Limited, has highlighted that governance and financial modelling arrangements, in relation to the Company, need to be developed. Further consideration of this issue is included as part of our work on the VfM Conclusion on pages 26 to 35. • Council’s Confidential Reporting Code (CRC) was not always properly followed on 2016/17 related matters. A number of issues have been reported through the CRC during 2017, however we are aware that proper procedures were not always followed, particularly in relation to ensuring that the issues remained properly confidential <p>The Council has updated its AGS to ensure these issues are reflected in the statement.</p> <p>The issues reported through the Confidential Reporting Code did identify areas where the Council could improve their governance arrangements to avoid such issues arising again in the future. The Council has judged that none of the 4 matters reported through its CRC process resulted in a significant governance weakness.</p> <p>The narrative statement presented to audit was to a good standard. Minor amendments were requested to enhance the information disclosed to fully meet all of the Code requirements.</p>
8.	<p>Specified procedures for Whole of Government Accounts</p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that no work is required as the Council does not exceed the threshold.</p>

Internal controls

The controls were found to be operating effectively and we have no matters to report to the Accounts and Governance Committee, with the exception of the Council ensuring it fully complies with its procedures as set out in its Confidential Reporting Code.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the one adjustment arising from the audit which has been processed by management as it impacts upon the primary statements.

Impact of adjusted misstatements

The one adjusted misstatement is set out in detail below along with the impact on the key statements for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Cash Flow Statement – An incorrect entry was made when completing the cash flow statement tool. The sale of short-term investments was input as £14.316m, however it should have been £11m. The impact is to amend the 'Cash flow from operating activities from (£2.439m) to £0.697m, whilst investing activities is amended from £2.596m to (£0.540m). There is no impact on the CIES or Balance Sheet.	0	0	0
2 A debtor balance with Cumbria County Council was incorrectly set up with a creditor balance for LEP monies. This would reduce debtors and creditors by £75,000.	0	0	0
Overall impact	£ 0	£0	£ 0

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Accounts and Governance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
1 The income figure for Housing Benefits Subsidy was based on the draft subsidy claim form. The final claim was completed in April 2017, approximately one month before the submission of the accounts, however the income figure for the Resources Portfolio in the Comprehensive Income and Expenditure Statement was not updated. The income figure has therefore been overstated by £41k.	41	(41)	Not material and corrected in 2017/18
2 Deposit on Folly Lane land is incorrectly included in capital receipts as the amount is not guaranteed - should be a receipt in advance.	24	(24)	Not material and corrected in 2017/18
3 Capital receipts recognised from 2 assets with no relating write out of asset in PPE.	45	(45)	Not material and corrected in 2017/18
Overall impact	£41	(£41)	

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Compliance	n/a	Accounts not signed	The accounts submitted for audit were not signed as being authorised for issue
2 Disclosure	n/a	'Telling the Story' issues.	<p>As highlighted in our audit plan, changes were made to the 2016/17 CIPFA Code to reflect the aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements. This resulted in last year's income and expenditure audited figures to be restated and a new note the 'Expenditure Funding Analysis' (EFA) to be produced. Amendments were made to include:</p> <ul style="list-style-type: none"> • the word 'restated' in the heading for 2015/16 in the CIES • additional notes to disclose the PPA made for the changes to the Code • Further disclosure relating to the EFA and segmental reporting <p>Furthermore the prior year figures did not agree to back to the working paper or the restatement work we completed at our interim audit visit. The comparative information therefore required correcting.</p>
3 Disclosure	n/a	Note 6 – Events after the balance sheet date	The note states that the accounts were authorised for release on 31 March 2017 – this needed to be amended to 31 May 2017.
4 Disclosure	n/a	Note 13 – Heritage Assets	The note was amended to make it easier to understand – a 2 nd table was included to show the financial position for 2015/16 and 2016/17.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
5	Disclosure	n/a	Note 15 – Intangible assets	The note was amended to make it easier to understand and also so it reconciles back to the Intangible Assets figure in the Balance Sheet of £96k
6	Disclosure	n/a	Note 16 – Financial Instruments	Various amendments were made to improve the accuracy of some of the information within the note.
7	Disclosure	109	Note 18 – Short-term debtors	Other debtors included £109k of debtors that related to other local authorities. The note was amended as appropriate.
8	Disclosure	n/a	Note 23 – Provisions	The note required updating to show the estimated timings for the payment of the provisions.
9	Disclosure	n/a	Note 24 – Long Term Borrowing	Prior year figures have been amended to agree to 2015/16 accounts.
10	Disclosure	40	Note 28 – Capital Adjustment Account	Some minor errors required amending in the note including: 'Amortisation of Intangible Assets' being amended from £nil to (£40k), whilst depreciation and impairment is amended by £13k and 'Adjusting amounts written out of the Revaluation Reserve is amended by £27k.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
11	Disclosure	3,136	Note 29 – Reconciliation of Income and Expenditure Deficit to Revenue Activities Net Cash Flow	The 'Net Adjustment from the Sales of Investments needed to be amended from £3.136m in the pre-audit accounts to £nil due to the issue outlined on page 20 in relation to the Cash Flow Statement
12	Disclosure	3,136	Note 31 – Cash Flow Statement – Investing Activities	Proceeds from investments needed to be amended from £14.136m to £11m due to the issue outlined on page 20 in relation to the Cash Flow Statement
13	Disclosure	n/a	Note 35a – Officers Remuneration	The note was updated to include two tables: one each for the financial years 2015/16 and 2016/17 so making the accounts easier to understand.
14	Disclosure	n/a	Note 38 – Related Party Transactions	Additional disclosure was required relating to the Heart of Cumbria. Whilst the 2016/17 expenditure is not material to the Council, they are to the Company and therefore require disclosure. A further minor amendment was made to NNDR transition grant/payment amending the figure for expenditure from £114,000 to £111,000.
15	Disclosure	348	Note 42 – Retirement Benefits	Within the narrative it indicates that the actual return on the (pension) scheme assets for the year was gain of £8,153,000. The figure was amended to £7,805,000 to agree with the report from Mercers.
16	Disclosure	100	Note 43 – Contingent Liabilities	The value of the contingent liability in relation to 'Assets of Community Value' was stated as £160k. From the information provided within the note the figure should have been stated as £260k.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
17	Classification	96	Collection Fund	The 'Business Rates Supplement Receivable' and the 'Business Rates Supplement Paid to Levying Body' were both incorrectly stated as £nil within the Collection Fund. A review of the Trial Balance from the Council's general ledger identified that both figures should be £90k. There is no adjustment to the in-year surplus on the collection fund.
18	Disclosures	n/a	Various – minor formatting issues	Seven minor formatting issues were identified and corrected.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

We are satisfied that in all significant respects, Eden District Council put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017.

That said, there are significant matters the Council needs to address to improve the corporate governance arrangements around the recently formed wholly owned subsidiary - Heart of Cumbria Limited.

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in January 2017 and identified two significant risks, which we communicated to you in our external audit update report to the Accounts and Governance Committee on 23 February 2017. The significant risks identified were:

- The medium term financial plan (MTFP) from January 2017 and September 2017 covers the financial years 2017/18 to 2020/21. There are considerable uncertainties during the period covered by the MTFP, and the Council apply estimates and key judgements to compile it.
- The Council set up a company, 'Heart of Cumbria Limited', which is an alternative service delivery vehicle. This was a new company set up in 2016/17, with the aim of providing affordable housing within Eden District, and seeking to provide economic growth and higher paid jobs. Whilst this new form of innovative partnership working is encouraged, there are many risks and opportunities, which we need to understand on how these are being identified, managed and monitored by the Council.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. **We have not identified any gaps in proper arrangements.**

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- processes put in place to identify and implement programmes and projects to address any on-going budget deficit as outlined in the MTFP;
- reporting and monitoring of the financial position during the financial year;
- the robustness of assumptions made;
- arrangements in place when setting up the Heart of Cumbria; and
- consideration of the business plan and business case for the Heart of Cumbria.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work later in this section on page 25.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

However, there are significant matters the Council needs to address to improve the corporate governance arrangements around the recently formed alternative delivery wholly owned subsidiary - Heart of Cumbria Limited. See pages 30 to 35 for more detail.

The text of our proposed report can be found at Appendix B.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment.

Significant risk	Work to address	Findings and conclusions
<p>Medium Term Financial Plan (MTFP) The MTFP from September 2016 covers the financial years 2016/17 to 2019/20.</p> <p>There are considerable uncertainties over the next few years with revenue streams, and the Council apply estimates and key judgements to compile the MTFP.</p> <p>The MTFP is updated during the course of the year and updates will be made by the Council during the period of our audit. Therefore we will carry out further work in this area.</p>	<p>We will review the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Executive and Full Council.</p> <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>The Council continues to face a challenging internal and external environment in the short to medium term. The challenges are compounded by the uncertainties faced through the business rates retention scheme, the level of ongoing Central government funding and Brexit. The MTFP approved by Council in February 2017 and September 2017 demonstrated that appropriate steps are being taken to ensure a balanced budget position against a background of reduced government funding and balancing the priorities identified in the Council Plan 2016-2020.</p> <p>The MTFP for 2017/18 to 2020/21 in February 2017 identifies a cumulative surplus of £0.205 million over the 4 year period before any transfers from reserves. This is on the basis of a deficit of £0.763 million being projected for 2017/18, with 0.668 million of this being based on non-recurring expenditure, with £0.777 million of the expenditure over the 4 year period coming from non recurring expenditure schemes. During 2016/17 the Council created an earmarked business rates reduction scheme (BRSS) reserve for £0.843 million, which will be utilised during 2017/18 and 2018/19 when an anticipated reduction in BRSS income is expected, showing the forward planning the Council has in place. The general fund balance is high for the Council, with a £6.4 million balance projected for the period of the 2017/18 to 2020/21 MTFP, which is significantly above the minimum level set at £1.5 million. The general fund balance at 31 March 2017 is £8.578 million and other earmarked reserves at 5.817 million, representing a £2.477 million increase in these reserves in total.</p> <p>The Council has a history of underspends in their revenue and capital budgets. The revenue budget for 2016/17 before transfers was a £0.963 million deficit, whereas a deficit of £0.173 million was achieved. This represents a £0.760 million underspend when compared to the budget in 2016/17. There are various reasons for the underspend. £0.199 million was due to higher levels of income than budgeted for business rates retention scheme and recovery of overpaid housing benefits and as already noted this has been set aside into a reserve in 2016/17. £0.2 million was also achieved from vacancy management.</p> <p>The delivery of the capital programme in 2016/17 showed a £0.433 million underspend against the £1.150 million budget, with £0.135 million of this due to slippage and the expenditure committed and re-profiled into 2017/18.</p> <p>The Council has a comprehensive approach to its medium term financial planning, budgeting and identification of plans, which are agreed at a corporate level, by senior officers and Members. The strategy is aligned to the Council's corporate priorities, highlights the key financial risks, and adopts a prudent approach to funding streams. The Council has taken this approach to allow it to have the flexibility and resilience in order to address the variable nature of future funding. The Council has good planning assumptions built into the annual and four year budget processes. The Council is responsive to changes required as the strategic planning process considers sensitivity analysis.</p> <p>Based on the review of the arrangements in place during 2016/17 for the compilation of the MTFP including identified savings we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in this area.</p>

Significant risk	Work to address	Findings and conclusions
<p>Informed Decision Making Sustainable resource deployment Working with Partners</p> <p>The Council has set up a limited company 'Heart of Cumbria Limited' which is an alternative service delivery vehicle. This is a new company set up in 2016/17, with the first company meeting in December 2016. The aims of the company are to provide affordable housing, seek economic growth and higher paid jobs and to seek a 3% return on any Council investment.</p>	<p>We will review the project management and risk assurance frameworks established by the Council in respect of 'Heart of Cumbria Limited', to establish how the Council is identifying, managing and monitoring the related risks and opportunities.</p>	<p>The development of the 'Heart of Cumbria Limited' (HoCL) is an important part of delivering the priorities set out in the Council Plan. The Plan sets out 4 priorities including:</p> <ul style="list-style-type: none"> Decent Homes for All - Providing access to good quality housing that both reflects local need and supports employment; and Quality Council - Delivering accessible, effective and value for money services and include the commitment to ensure that there are resilient finances through sound financial management and innovative income generating activities. <p>It is with this commitment that the Council established the wholly owned vehicle, HoCL. The key objectives of the HoCL are to:</p> <ul style="list-style-type: none"> support the provision of affordable housing; support the creation and generation of growth and higher paid jobs within the District; and potentially give the Council a return on its investment. <p>To date the main developments for HoCL include the:</p> <ul style="list-style-type: none"> setting up of the company, including the appointment of its Directors including two external Non-Executive Directors; development and approval of a Business Plan for the Company; and preparation of the Business Case for the procurement of 86 affordable homes. <p>Given the importance of the Company to the Council, in both financial and service delivery terms for the future, we have carried out a detailed review of the initial Business Plan and Business Case to gain an understanding of how they compared against normal and best practice. The Council and Company are still at the early stages of evolving the relationship. We would expect in a detailed Business Plan, which the Council has indicated is yet to be produced:</p> <ul style="list-style-type: none"> a financial model to consider the viability of opportunities presented; an analysis of risks; a clear indication of the resources required to operate the business; the development of a robust governance system; and detailed analysis of tax implications. <p>Further the detailed Business Case, when formally completed, should include a detailed financial analysis of the proposed purchase, which covers:</p> <ul style="list-style-type: none"> tax implications; legal / transactional costs; rent levels; forecast investment returns and sensitivity analysis relating to key assumptions; and costs maintenance and management. <p>It is recognised this is presently in the course of consideration by the Company and is therefore missing from the current business case. The Council does have the use of alternative delivery models on its corporate risk register. The Council has also made us aware that the Company has recently approved a suite of governance related policies and procedures.</p> <p>The following tables on pages 29 to 31 link our key findings through to the vfm conclusion criteria.</p> <p>It is important to note that we are fully supportive of the Council considering alternative delivery models to realise its priority aspirations. This includes the use of the Company and it is important that the Council has appropriate governance, legal, tax, financial analysis and financial modelling arrangements in place to adequately safeguard its asset and liability position, which are currently missing. At the same time it is important that the Council is able to demonstrate that it is securing value for money. Fully evaluated options should be presented in advance of the Council and Members making significant decisions.</p>

Informed decision making

Sub criteria	Sub-criteria details	Findings	Conclusion
<p>Informed Decision Making</p>	<ul style="list-style-type: none"> • Acting in the public interest, through demonstrating and applying the principles and values of sound governance • Understanding and using appropriate cost and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management • Reliable and timely financial reporting that supports the delivery of strategic priorities • Managing risks effectively and maintaining a sound system of internal control. 	<p>The governance section within the initial Business Plan is brief. It currently does not evidence the consideration of a robust governance structure which are needed both: within the Company and the Council and; between the two organisations. It is noted the Company and Council will be considering these on 7 September 2017.</p> <p>Following adoption of these, it is understood the Business Plan will be updated to cover specific projects and will consider an analysis of risks and opportunities for the individual schemes. It is important for the Council, as the sole shareholder and investor, that any significant risks are identified and risk mitigation processes are in place as the projects come forward.</p> <p>The Business Case document presented to the Council on 13 July 2017 does not include financial analysis of the proposed purchase of the 86 properties or the forecast returns which we note will be the subject of a separate report. Clarity over the level of investment is now £5m compared to a total of £1.1m in the Business Plan.</p> <p>Given that both the Business Plan and Business Case are both high-level documents, that are in part difficult to follow and have generated some challenge from Members. The initial Business Plan suggested that the Council may make available £500,000 for the purchase of affordable dwellings; and £500,000 to fund commercial/property assets;. The Council has clarified that the two £0.5m funds are loans, and not grants, to the Company.</p> <p>Additionally, clarity should be given in the Business Case on why the s106 agreement to provide 151 affordable homes, as part of the development, does not given sufficient assurance that it will meet the objectives for the Council.</p>	<p>It has been acknowledged by the Council's senior officers that the Business Plan, presented to the Council on 12 January 2017 and the Business Case presented to the Council on 13 July 2017 for the purchase of 86 properties require further detail. On their own we would be unable to conclude that the requirements for informed decision making have been met due to there being a lack of a detailed financial analysis within the documents and the lack of a full consideration of the risks and opportunities both for the Company and the Council.</p> <p>Further evidence has been provided that demonstrates some initial financial modelling has taken place. We have also been made aware that there have been a workshops for Members on matters involving the Heart of Cumbria, the first of these being on 12 January 2017, with the latest taking place on 13 July.</p> <p>On 13th July Members approved a bid for the 86 properties subject to contract, and a full assessment is planned on the back of knowing the outcome from the initial bid.</p> <p>Overall, the Council needs to provide its Members with much more clear and concise information to allow for fully informed decision making, after detailed consideration of governance structures, financial analysis and financial modelling when and if such a proposal comes forward.</p>

Sustainable resource deployment

Sub criteria	Detail	Findings	Conclusion
Sustainable resource deployment	<ul style="list-style-type: none"> • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing and utilising assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities. 	<p>It is important for Business Plans for such companies to include an analysis of the skills, governance and specialist expertise sought or required.</p> <p>The Council has indicated that when a formal proposal comes forward from the Company for funding, the Business Case will include detailed financial modelling and analysis setting out key items such as:</p> <ul style="list-style-type: none"> • Funding arrangements; • Tax implications; • Level of rental income from the properties; • Expected investment returns; and • Management and maintenance costs. <p>Given the level of investment it would be reasonable to expect this information to be available to evidence the long-term sustainability of the Company and for the affordable housing scheme set out in the Business Case.</p> <p>Some initial financial modelling has taken place and the assumptions included in these have been set out.</p> <p>The Council has also made us aware that the Company on 27th June 2017 approved a suite of governance related policies and procedures which will be formally considered by the Council on 7 September 2017.</p>	<p>A financial model needs to be developed that pulls together the structure, funding arrangements and tax and accounting issues. In doing so, it may highlight unforeseen strategic issues to be resolved and will provide evidence in relation to the financial sustainability of the scheme. Such evidence is currently missing from the initial business plans and case.</p> <p>We acknowledge that, the Council is taking a further paper on the Business Case for the affordable dwellings to Council at a future date. It is important that, consideration is given to the areas highlighted here.</p> <p>We recommend the Council as the parent of the Company take steps such as but not limited to;</p> <ul style="list-style-type: none"> • the development of a financial model to consider financial viability; • an analysis of risks and the preparation of a risk register; • an analysis of the different funding options; • seeking tax advice on the implications of the tax issues; and • developing a robust governance system.

Sustainable resource deployment (continued)

Sub criteria	Detail	Findings	Conclusion
Sustainable resource deployment (Continued)	<ul style="list-style-type: none"> • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions • Managing and utilising assets effectively to support the delivery of strategic priorities • Planning, organising and developing the workforce effectively to deliver strategic priorities. 	<p>The initial outline Business Plan proposes that the Company will be active in buying residential and commercial property and developing schemes on both Council owned and non-Council owned land. Property and land transfer is a complex area with numerous tax and legal implications that can ultimately affect the returns and viability of an investment. The updated Business Plan, when it is produced, will need to indicate that these implications have been considered.</p> <p>The development of a company is outside of the normal course of business for local authorities and it needs the appropriate skills, experience and specialist advice. Clarity is required to demonstrate that these have been considered and there needs to be appropriate controls and procedures in place before making investment decisions. Typical factors include, but are not limited to supply and demand, target returns, the length of investment and payback, and economic outcomes.</p> <p>The Housing White Paper released in February 2017, makes an indication that the Right to Buy (RTB) regime may be extended to capture local authority owned housing companies. The updated Business Plan will need to consider the potential future risks associated with RT) on the housing stock of the Company.</p>	<p>The Council will need to consider the level of accountability and governance arrangements to be put in place between the Council and the Company. In particular, these should focus on accountability for public sector investment and/or loans to the Company and the risks to public sector funded assets and potential public sector liabilities arising from the Company activities.</p> <p>The Council and the Company need to consider the potential implications of RTB regime extending to local authority owned housing companies.</p>

Working with partners and other third parties

Sub criteria	Detail	Findings	Conclusion
Working with partners and other third parties	<ul style="list-style-type: none"> • Working with third parties effectively to deliver strategic priorities • Commissioning services effectively to support the delivery of strategic priorities • Procuring supplies and services effectively to support the delivery of strategic priorities. 	<p>In the initial outline Business Plan three objectives were set out for the Company by the Council as shareholder, to;</p> <ul style="list-style-type: none"> i. "Provide affordable housing; ii. Seek economic growth and higher paid jobs; and iii. Seek a 3% return on any Council investment." <p>In order to measure the outputs of the Company against these three objectives, the three key targets for the Company stated in the Business Plan are;</p> <ul style="list-style-type: none"> i. "Additional income from cash investments for the Council of up to £200,000 a year within five years as a minimum assuming the Council's financial support is forthcoming. ii. To facilitate additional new higher paid jobs and employment development. iii. To own at least 50 affordable dwellings." <p>We would expect targets should be 'SMART' (Specific, Measureable, Achievable, Relevant and Time-based). As can be seen the current targets are not 'SMART' but are planned to be developed as governance arrangements are embedded.</p> <p>Whilst some treasury management and legal advice has been received in relation to the application or not of State Aid rules challenge, it is not clear if any other specialist advice has been sought. For example, the potential tax implications for each of the Business Case options being considered, however this is something which is recommended to be sought.</p> <p>To deliver the scheme, the company and the council may need to work in partnership with other organisations. It would be useful if some commentary was given to show this has been considered, for example working with Registered Social Landlords in the provision of management and maintenance.</p>	<p>We recommend that the Council reviews the objectives and targets it has set the Company to ensure objectives are SMART and targets are achievable, measurable and clear.</p> <p>In further developing the Business Case for the affordable dwellings the Council needs to be clearer on how it has worked with other stakeholders and engaged appropriate specialists to ensure the Council is adequately safeguarding its asset and liability position, while demonstrating it is securing value for money.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention, with exception of initially fully understanding the arrangements between the Council and its wholly owned subsidiary – Heart of Cumbria.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

This section sets out our other statutory powers and duties.
There are no issues to report.

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations that the Council is required to respond to publicly.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> We confirm that we have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none"> We confirm that we have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none"> We confirm that we have not used this duty.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

This section sets out the audit fee and our independence considerations.

We confirm below our final fees charged for the audit. We confirm there were no fees for the provision of non audit services.

Fees

	Budget £	Actual £
Council audit	41,943	TBC
Grant certification	7,898	7,898
Total audit fees (excluding VAT)	49,841	TBC

We are still in the process of finalising our audit and we will confirm the fee in our Annual Audit Letter after discussions with Management and Public Sector Audit Appointments Limited.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Our grant certification fee is still an estimate, as our work on the Council's housing subsidy claim is still on-going and will not be finalised until November 2017.

Fees for other services

There are no other services provided.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

This section summarises our communication requirements to you as 'those charged with governance'. We confirm that all required reporting is included within the audit plan or this audit findings report.

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Ensure there is sufficient time, in the closedown plan, for review of the accounts to minimise the number of disclosure issues within the accounts	Medium	Agreed. This will be included in the 2017-2018 annual accounts closedown plan.	31 March 2018. Assistant Director – Financial Services
2	Ensure the disclosure checklist is completed at the time of the completion of the accounts to give the S151 Officer the assurance that all disclosures have been included.	Medium	Agreed. This will be included in the 2017-2018 annual accounts closedown plan. The checklist will be completed before the accounts are released.	31 May 2018. Assistant Director – Financial Services
3	Ensure that the Annual Governance Statement includes all relevant governance issues, including those up to the date of our opinion.	Medium	Agreed. This is considered to be an ongoing matter.	From now until 31 July 2018.
4	Ensure that investment properties are revalued each year, or ensure that it can clearly demonstrate and evidence that the carrying value is not materially different from the fair value.	Medium	Agreed. The Council's Valuer will be requested to provide a statement on an annual basis.	31 March 2018. Assistant Director – Financial Services

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
5	Members need to be provided with clear and concise information on Heart of Cumbria Ltd related matters to allow for fully informed decision making, after detailed consideration of: governance structures; financial analysis; and financial modelling.	High	Agreed. Before any trading takes place, these matters will be investigated and reported to Members	Immediate. Management Team
6	The Council as the parent of the Heart of Cumbria Ltd, should take steps such as, but not be limited to; <ul style="list-style-type: none"> • the development of a financial model to consider financial viability; • an analysis of risks and the preparation of a risk register; • an analysis of the different funding options; • seeking tax advice on the implications of the tax issues; and • developing a robust governance system. 	High	Agreed. Work is currently in progress to ensure the steps are taken.	Immediate. Management Team

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
7	<p>Consider the level of accountability and governance arrangements to be put in place between the Council and the HoCL. In particular, these should focus on:</p> <ul style="list-style-type: none"> • accountability for public sector investment and/or loans to the Company; • the risks to public sector funded assets; • and potential public sector liabilities arising from the Company activities. 	High	Agreed. Governance arrangements were presented to Heart of Cumbria Limited Board and Council on 7 September 2017.	Immediate. Management Team
8	The Council and the HoCL need to consider the potential implications of RTB regime extending to local authority owned housing companies.	Medium	Agreed. However, it must be acknowledged that government intentions are unclear regarding this at present. When clarified, the implications will be reviewed.	<p>These will be considered:</p> <ul style="list-style-type: none"> • When feedback from the bid to purchase the units is known; • When government clarifies its intentions. <p>Management Team.</p>
9	Review the objectives and targets the Council has set Heart of Cumbria Limited to ensure objectives are SMART and targets are achievable, measurable and clear.	High	Agreed. This will be done when the Business Plan is reconsidered.	31 January 2018. Management Team.

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
10	In further developing the Business Case for the affordable dwellings the Council needs to be clearer on how it has worked with other stakeholders and engaged appropriate specialists to ensure the Council is adequately safeguarding its asset and liability position, while demonstrating it is securing value for money.	High	Agreed. Such matters will be considered and determined should the bid to purchase the dwellings be accepted.	To be confirmed. Management Team,

Appendix B: Draft proposed audit opinion

We anticipate we will provide an unqualified opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF EDEN DISTRICT COUNCIL

We have audited the financial statements of Eden District Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion:

- the financial statements present a true and fair view of the financial position of the Authority as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects *the Authority* put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Act and the Code of Audit Practice.

Gareth Kelly
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

110 Queen Street
Glasgow
G1 3BX

To be dated July 2017



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