

Eden District Council
Accounts and Governance Committee
22 December 2021

2019/20 Annual Audit Letter

Portfolio:	Resources
Report from:	Interim Director of Resources
Wards:	All Wards
OPEN PUBLIC ITEM	

1 Purpose

- 1.1 To receive the External Auditors (Grant Thornton) Annual Audit letter for their audit of the accounts for 2019/20.

2 Recommendation

It is recommended that the report and Plan are noted.

3 Report Details

- 3.1 The external auditors have prepared the attached letter to summarise the key findings arising from the work that they carried out for the year ended 31/3/2020.
- 3.2 The report includes 5 audit risks that they identified in advance of the audit or during their audit which therefore affected the overall strategy and focus of their work. One of the risks identified not further issues. The others identified recommendations which will be considered for implementation and followed up as part of the 2020/21 accounts audit.
- 3.3 The report includes 2 value for money risks. Recommendations have been made in relation to reserves levels, sensitivity analysis and impact of One Eden programme. These will also be taken into accounts as part of the budget planning work for 2022/23.
- The other recommendation related to the governance arrangements for Heart of Cumbria. This will be considered during 2022/23.
- 3.4 We have continued to work with the auditors to arrange a revised time to perform their audit and have agreed that this will start in January 2022.
- 3.5 The External Auditor has produced and agreed its audit plan with the Interim Director of Resources and it is attached at Appendix 1.

4 Policy Framework

- 4.1 The Council has four corporate priorities which are:
- Sustainable;
 - Healthy, safe and secure;
 - Connected; and

- Creative

4.2 This report meets Sustainable Corporate priority.

5 Consultation

5.1 No consultation has taken place.

6 Implications

6.1 Financial and Resources

6.1.1 Any decision to reduce or increase resources or alternatively increase income must be made within the context of the Council's stated priorities, as set out in its Council Plan 2019-2023 as agreed at Council on 7 November 2019.

6.1.2 There are no proposals in this report that would reduce or increase resources.

6.2 Legal

6.2.1 There are no legal implications.

6.3 Human Resources

6.3.1 There are no human resource implications.

6.4 Environmental

6.4.1 There are no environmental implications.

6.5 Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	No implications
Health, Social Environmental and Economic Impact	No implications
Crime and Disorder	No implications
Children and Safeguarding	No implications

6.6 Risk Management

Risk	Consequence	Controls Required
Reputational risk of not publishing audited accounts by the deadline	Reputational damage	EDC will continue to publish information about the publication of its accounts on its website.

7 Other Options Considered

7.1 No other options have been considered.

8 Reasons for the Decision/Recommendation

- 8.1 This is recommended due to the requirement to have the annual accounts audited.

Tracking Information

Governance Check	Date Considered
Chief Finance Officer (or Deputy)	13 December 2021 (Deputy)
Monitoring Officer (or Deputy)	14 December 2021

Background Papers: None

Appendices: Annual Audit Letter for Eden District Council

Contact Officer: Marianne Bastille, Assistant Director Finance & HR

The Annual Audit Letter for Eden District Council

Year ended 31 March 2020

December 2021



Contents



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Eden District Council (the Council) and its subsidiary (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Accounts and Governance Committee as those charged with governance in our Audit Findings Report on 22 December 2021.

Our work

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Materiality

We determined materiality for the audit of the Council's financial statements to be £428,000 and materiality for the audit of the group's financial statements to be £452,000, which is 1.8% of the Council's and 1.9% of the group's gross expenditure.

Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 12th August 2021.

We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and the property assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.

Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 22 December 2021.
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Certificate	We certified that we have completed the audit of the financial statements of Eden District Council in accordance with the requirements of the Code of Audit Practice on 12 August 2021.
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Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council with additional challenges of reopening services under new government guidelines. Council staff have had to adapt to working from home and accessing key systems remotely. We updated our audit risk assessment to consider the impact of the pandemic and included an additional financial statement level risk in respect of Covid-19 in our audit plan.

Restrictions for non-essential travel has meant both Council and audit staff have had to adapt to new remote access working arrangements. This has included the use of video calling and screensharing for the verification of completeness and accuracy of information produced by the entity, and information sharing through our cloud-based software.

The accounts were provided to us at the beginning of August 2020, ahead of the 31 August deadline. The impact of remote working, sickness and capacity issues within the finance team means that the audit of the financial statements continued well into 2021. For example, in the first 7 weeks we had no substantial responses to our outstanding audit queries. We acknowledge that these are exceptional times and the finance team has understandably had to prioritise the Council's response to the pandemic.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
December 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £452,000, which is 1.9% of the group's gross expenditure. We determined materiality for the audit of the Council's financial statements to be £428,000, which is 1.8% of the Council's gross expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration of £10,000.

We set a lower threshold of £23,000, above which we reported errors to the Accounts and Governance Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work has not identified any issues in respect of this significant risk.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land, buildings and investment property</p> <p>The Council revalues its land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land, buildings and investment property (including those held by Heart of Cumbria Limited), particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work evaluated the competence, capabilities and objectivity of the valuation expert discussed with the valuer the basis on which the valuation was carried out challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding tested revaluations made during the year to see if they had been input correctly into the Authority's and group's asset register; and evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. 	<p>Our testing of the valuation of land and buildings identified that the Gross Internal Areas (GIA's) and land areas used in the valuation calculations did not always reconcile to the relevant site plans and in some cases floor plans or other corroborating information was not available. The Council, in conjunction with the valuer, has undertaken additional work to establish the relevant floor areas and confirm land areas. This has resulted in:</p> <ul style="list-style-type: none"> An increase in value of Other Land and Buildings of £909,500 as a result of incorrect land and floor areas used in four valuations; A reduction in value of Surplus Assets of £165,500 as a result of incorrect land area used in one valuation; An increase in value of Investment Property of £24,000 as a result of incorrect land area used in one valuation; and A Prior Period Adjustment to correct material errors to the PPE valuation in 2017/18 and 2018/19. PPE valuations in each year were increased by £670,000 reflecting an understatement of £835,000 in the valuation of Penrith Leisure Centre and an overstatement of £165,000 in the valuation of Land at Westgarth. <p>We recommend that the Council ensures in future that valuations are based on and reconcile to floor plans and land areas and that all areas of an asset have accurate and up to date plans in place.</p> <p>The valuer has included a material valuation uncertainty paragraph as a result of Covid-19 as well as being reported in the Council's financial statements. We considered it appropriate to include an Emphasis of Matter in our audit opinion highlighting this material uncertainty. It is important to note that this is a national issue applying to most local authorities where material land and building asset bases exist.</p>

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's pension fund net liability as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluate the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • agreed any advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • obtained assurances from the auditor of Cumbria Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. 	<p>The draft financial statements did not use the most up to date actuarial report. An updated report was issued in August 2020 to reflect changes in relation to the value of assets of the pension fund. The Council's financial statements have been amended to reflect the latest actuarial report.</p> <p>We have received assurance from the Cumbria Pension Fund auditor on the 2019-20 Pension Fund accounts. The pension fund auditor's report refers to a material uncertainty relating to the value of direct property as a result of Covid-19. Our anticipated financial statements audit opinion will include an Emphasis of Matter highlighting the uncertainties that the Council has disclosed in note 5 to the financial statements in relation to the valuation of direct property included within the net pension liability. Please note that this is a national issue and the change to our opinion is a direct result of the impact of Covid-19.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Experience of the finance team</p> <p>The Council has experienced a turnover of staff within the finance team and at S151 Officer level. The posts have been filled by the combination of two interim appointments.</p> <p>Whilst these appointments have addressed the strategic finance requirements, there is a lack of experience within the team in accounts closedown and preparation with no permanent chief accountant in post.</p> <p>We acknowledge that, the Council is seeking to address the matter with the appointment of an interim who can carry out the role of chief accountant.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated our understanding of the mitigating arrangements management had in place to minimise the impact of interim finance staff leaving the organisation, and having no experienced chief accountant in post • inquired of management as to the alternative arrangements made in ensuring technical financial accounting entries, and financial reporting areas, have been undertaken by (or with the support of) individuals with the right level of knowledge, expertise and experience • ensure management have a robust and documented quality assurance process in place to mitigate the risk of error occurring in the financial statements. 	<p>The Council has appointed an interim S151 officer and an interim Chief Accountant who have worked with us through the audit process. We understand their contracts have been extended to the end of 2021 in order to cover the closedown and accounts preparation for 2020/21.</p> <p>Sickness in the finance team due to COVID 19, under capacity and lack of financial reporting experience of the wider finance team and competing pressures on key officers has resulted in significant delays in obtaining information to complete the audit on a timely basis. Accounts were received a month later than originally agreed but acknowledge these were in line with the revised national deadline of 31 August 2020. Response to some requests have not been as timely as anticipated. Some of the delays relate to issues around the valuation of land and buildings, which has taken a significant amount of time to resolve.</p> <p>We recommend the Council now look to ensure adequate resources are in key finance roles and to ensure that the finance team has the capacity and sufficient skills to produce accounts and working papers on a timely basis.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances. • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence. 	<p>The results of our work concluded that appropriate arrangements have been put in place to manage the Covid-19 situation and suitable disclosures have been made in the financial statements. We were able to obtain sufficient audit evidence by utilising screensharing for the verification of completeness and accuracy of information produced by the Council, and share information through our cloud based software.</p> <p>On the basis of our work, our financial statements audit opinion was unqualified but included paragraphs highlighting the uncertainties that the Council has disclosed in the financial statements in relation to property valuations and the valuation of direct property included within the net pension liability. Please note that this change to our opinion is a direct result of the impact of Covid-19. The reporting of a material uncertainty on the valuation of land and buildings and pension fund assets is consistent across all of our local authority audits.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 12 August 2021.

Preparation of the financial statements

The group presented us with draft financial statements in August 2020, ahead of the 31 August deadline.

The impact of remote working, audit delays as a result of sickness in the finance team, under capacity/lack of experience and pressures on key officers meant that there were significant delays in obtaining information requested. There were also issues around the quality of working papers, financial statements and evidence provided, along with the issues encountered during the work on revaluations.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the group's Accounts and Governance Committee on 22 December 2021.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in and alongside the draft Statement of Accounts in August 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Eden District Council in accordance with the requirements of the Code of Audit Practice on 12 August 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in December 2021, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

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Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
<p>Financial Resilience and Sustainability</p> <p>The Council continues to face a challenging environment in the medium term. The Medium Term Financial Plan (MTFP) 2020/21 to 2024/25, in January 2020 shows a savings requirement of £631k in 2020/21, £645k in 2021/22, £95k in 2022/23 and £169k in 2023/24.</p> <p>The Council is reviewing how to identify areas of potential savings or revenue generation. There are considerable uncertainties over various revenue streams in the medium term due to the fair funding review outcome, commercial income and the uncertainty around the future of the Business Rates Retention Scheme. As a result the Council has to apply a number of estimates and key judgements to compile its MTFP.</p>	<p>The Council has a recent history of achieving an overall balanced revenue budget but significantly underspending on its capital programme, which has subsequently been re-profiled into future periods. For 2019/20 the budget required a general fund contribution of £4.394m to balance the budget. The year-end outturn position against the budget is that of an overspend of £1.156m on services. The pressure on the budget contributed to a reduction to the General Fund balance of £5.550m in the year, with the General Fund balance now being £2.024m.</p> <p>Within this overall picture there are underspends on specific service budgets. A majority of the service underspends have been placed back into Earmarked Reserves which have increased from £5.442m to £9.874m. The reduction in the General Fund and corresponding increase in Earmarked Reserves can partly be attributed to transfers in relation to Heart of Cumbria.</p> <p>Capital spend in the year was £1.6m against a revised budget of £5.7m. £4.0m has been re-profiled into future years. Within the underspend, £2.3m relates to land and property acquisition of Voreda House.</p> <p>At 31 March 2019 general fund balances were £13.016m. This figure included earmarked reserves of £5.4m. The Council's revenue reserves at 31 March 2020 were £11.898m which is an overall 8.6% reduction and represents 37% of the net cost of services expenditure spend for 2019/20. The General Fund balance specifically has reduced by 73% to £2.024m at 31 March 2020. This is compared to a General Fund balance of £6.5m as at 31 March 2020 forecast in the 2019/20 budget proposal. This is partly due to the transfer to Earmarked Reserves in relation to Heart of Cumbria as detailed above. The General Fund reserve, over the period covered by the MTFP (2019/20 – 2023/24), was projected to decrease by 81% being £1.265m at the end of the 4-year period. An updated MTFP, as part of the 20/21 budget proposals, predicted the General Fund balance to be stable over the next four-year period at a level of £3.2m. However, year-end outturn for 2019/20 shows it to be below that at a little over £2m. Earmarked reserves were budgeted to be £8.483m as at 31 March 2020 but are higher at £9.874m.</p> <p>There has been a reduction in reserves over the recent period. The Council should consider the adequacy of its reserves going forward, ensure that reserves used to support expenditure and future budgets are replenished and ensure an appropriate level of balances are maintained to manage the financial risks it faces.</p> <p>During 19/20 the council did the following to deliver on the One Eden Transformation Programme:</p> <ul style="list-style-type: none"> • In 19/20 the full One Eden Transformation Programme workstreams were designed and savings targets approved by Council in February 2020; • The acquisition of Voreda House was approved and completed with the aim of delivering a single site operation for the Council; • Initial work was undertaken to scope the proposed staff restructure set out in the HR workstream; • The main delivery was expected to be undertaken in 2020/21. 	<p>Auditor view</p> <p>In our opinion the Council has arrangements in place and the ability to identify potential funding shortfalls, and to develop and deliver financial plans sufficient to mitigate this in the medium term.</p> <p>However the latest MTFP shows a reduction in reserves over the period. The Council should consider the adequacy of its reserves going forward, ensure that reserves used to support expenditure and future budgets are replenished and ensure an appropriate level of balances are maintained to manage the financial risks it faces.</p> <p>As outlined in Appendix A, we recommend that management carry out a detailed sensitivity analysis around the key uncertainties and assumptions included in its MTFP, to aide the agility now needed to manage the Council's financial sustainability.</p> <p>It is also really important that the Council closely monitors the impact of its One Eden Transformation Programme delivery to assess its impact on the MTFP and financial sustainability.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
Financial Resilience and Sustainability Continued.	<p>The annual budget setting process includes review of the budget and underlying information and assumptions by CMT. This review is used to identify the impact of decisions on reserves, income, expenditure and savings to ensure the budget set is appropriate. The s151 officer considers the adequacy of balances and reasonableness of assumptions and estimates.</p> <p>The Management Team monitor the financial position on a monthly basis and any significant issues are highlighted to the relevant portfolio holder. On a quarterly basis the Executive formally considers the revenue and capital monitoring reports. There is an annual Budget Scrutiny Review group. This group recommended that a separate Budget Planning Committee be set up from May 2020 onwards, in order to have a more strategic oversight of the Budget throughout the year. This was implemented in June 2020.</p> <p>Appropriate monitoring arrangements are in place to ensure that the Council remains financially viable through in-year monitoring of revenue and capital budgets and updating the MTFP. A balanced budget was set in both 2019/20 and 2020/21. The MTFP review in December 2020 has identified that because of the COVID-19 pandemic, not all planned savings will be achieved for 2020/21, however the programme is still progressing.</p> <p>The MTFP review in December 2020 identified that, required savings of £1.75m are needed to avoid using the General Fund balance to meet recurring expenditure. The Council believes these are still at a manageable level, within the delivery parameters set within the Transformation Programme.</p> <p>The Council's One Eden transformation programme runs over a four-year period to 2022-23. The programme aims to bring together the Council's plans on customers, digital, people, culture and accommodation to improve services for customers, deliver efficiency savings through new ways of working and increased ongoing revenue income. The programme includes the setting of financial targets across the various work streams and over the four-year period to 2023.</p> <p>The future impact of COVID-19 on services and income is unclear and there continues to be funding and macroeconomic uncertainty. In view of this, the Council should continue to identify opportunities to supplement its reserves and strengthen its financial sustainability in the medium term.</p>	<p>Management response</p> <p>The ongoing impact of the Covid19 pandemic as well as the emerging impact of Local Government Reorganisation will require an ongoing significant level of financial discipline at a time when resource will again need to be diverted to other priorities.</p> <p>The changes in the restructure will bring capacity in to the finance team that will support this including a new Assistant Director starting in September 2020.</p>

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
<p>Heart of Cumbria</p> <p>Our Vfm review in the prior year identified that significant progress has been made against our recommendations proposed. However, there remains a recommendation on the governance arrangements relating to the Heart of Cumbria Limited subsidiary. Therefore, a significant risk remains that the arrangements in place for the Heart of Cumbria Limited (HoCL) are not adequate to ensure that the Council realises the full potential benefits of this company. This is in terms of it delivering on a number of Council priorities and to avoid financial or reputational loss.</p>	<p>In our 2017/18 Audit Findings report, we identified several areas where the Council needed to improve its arrangements in relation to the Heart of Cumbria Limited (HoCL). We made a number of recommendations to help the Council improve those arrangements.</p> <p>In our 2018/19 Audit Findings report we acknowledged the progress that had been made in implementing the recommendations made in our 2017/18 report, though there remained a couple of areas that required further consideration.</p> <p>Specifically the issue that when a Council has a wholly owned subsidiary, Board Membership and the need to effectively manage risks around good governance, transparency and conflicts of interest is key and arrangements in relation to this need to be robust.</p> <p>In May 2018, we noted that the Council's Constitution was amended such that where potential conflicts of interest arise, the advice of the Monitoring Officer should be sought. At the time of our last report, the advice of the Monitoring Officer has been that members who are Directors on the HoCL could discuss, but not vote on, matters relating to HoCL. This advice is appropriate in ensuring that potential conflicts of interest are mitigated. However, we noted that it was important that the Council kept such issues under review.</p> <p>In November 2019, the Council adopted a resolution that serving Councillors should not be appointed as Directors of the Company and one member of the Executive should be appointed as the Shareholder representative. We understand the Articles of Association of the Company and the Governance Agreement were amended to reflect these changes and the Councillors on the Board of the company at the time resigned from that post.</p> <p>In February 2021, following a Review of HoCL, the Council resolved to dissolve the company and the assets and functions be brought into the Council.</p>	<p>Auditor view</p> <p>Whilst most of our previous recommendations have been addressed, a previous recommendation that the Board have five unpaid non-executive directors has not been implemented.</p> <p>The Council have now made the decision to bring the properties back in house so they will come under Council governance arrangements. Whilst this now negates the governance risk somewhat, the whole process could have been improved.</p> <p>We will consider the VFM implications of the decision to dissolve HoCL and bring the assets and functions back in house as part of our VFM work in 2020/21 under the new Code of Audit Practice.</p> <p>Management response</p> <p>As has been set out the Council has taken the decision to bring the assets back in to the Council. The recommendation was considered but a review of the Company was approved and therefore no additional changes in Directors were considered whilst the review was completed.</p>

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	5 June 2020
Audit Findings Report	22 December 2021
Annual Audit Letter	22 December 2021

Fees

	Planned £	Actual fees £	2018/19 fees £
Statutory audit	42,296	95,500	36,296
Group Assurance procedures over Heart of Cumbria Limited	3,000	3,000	3,500
Total fees	45,296	98,500	39,796

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £32,296 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Fee variations are subject to PSAA approval.

Area	Reason	Fee proposed
Covid-19- remote working	This reflects the additional time it has taken us to deliver the 2019/2020 audit, in view of remote working arrangements and additional time it has taken to obtain sufficient, appropriate audit evidence remotely.	7,000
Audit delays	As a result of the sickness in the finance team due to COVID, under capacity and lack of experience of the team and pressures on key officers because of other Council commitments, we have experienced significant delays in obtaining information requested. Accounts were received a month later than originally agreed - the end of August 2020 rather than the end of July 2020 - and response to some requests have not been timely. Some of the delays are in respect of issues raised on the valuation of land and buildings, which has taken an extended period of time to resolve.	11,000
Quality of working papers, financial statements and evidence provided	Some of the working papers provided were not of the quality we would expect and contained errors. As was the case with some of the evidence provided, in some cases no evidence was initially received for sample testing. We identified a large number of errors and various adjustments to the financial statements were needed including changes to the Council's key statements. This was in addition to a large number of disclosure errors across the whole financial statements. Quality control arrangements around the financial statements and related working papers require improvement. All of the above have resulted in delays to the audit due to the audit team going back and forth with the Council in order to resolve issues and obtain sufficient and appropriate audit evidence.	17,204
Revaluations	Following the issues encountered during the work on revaluations, a richer skill mix than planned has been required to work with the Council and its valuer to obtain the required evidence and complete the testing. This had led to material adjustments to the PPE valuation and consideration of potential impact on prior year valuations.	18,000
Total		53,204

