Report to Business and Transformation Scrutiny Panel

Meeting Date:	26 August 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	No
Within Policy and Budget Framework	YES
Public / Private	Public

Title:	EXTERNAL AUDIT REPORT – ACTION PLAN AND RECOMMENDATIONS FOLLOW UP
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD35/21

Summary:
The Audit Committee considered the External Audit Report for Carlisle City Council at its meeting on 20 May 2021 (AUC.17/21) and has referred it to the Business and Transformation Scrutiny Panel for information and ongoing monitoring

Questions for / input required from Scrutiny:
To and receive an update on the progress in implementing the recommendations made in the External Audit Findings Report for 2019/20.

Recommendations:
Members are asked to consider the progress on implementation of the recommendations in the External Audit Findings Report for 2019/20.

Tracking

Scrutiny:	**26 August 2021**

1. BACKGROUND

1.1 At its meeting on 20 May 2021, the Audit Committee received the External Audit Findings report (AFR) for 2019/20 from the Council's external auditor, Grant Thornton. The Committee resolved that Appendix A (Action Plan) and Appendix B (Follow up on prior year recommendations) of the AFR be referred to this Panel for information and ongoing monitoring.

2. ACTION PLANS

2.1 The Action Plan for the 2019/20 Findings Report is shown at Appendix A. Recommendations 3 and 4 in relation to Run Rate of Reserves and Medium-Term Financial Planning have been addressed in the draft Medium Term Financial Plan considered elsewhere in this agenda. The follow up actions (Appendix B) from the 2018/19 AFR have either been fully implemented or have been carried over to the 2019/20 Action Plan.

3. RISKS

3.1 There is a risk that not implementing the recommendations contained in the annual AFR's will lead to further comments made by the external auditor in the future on the financial management of the Council.

4. CONSULTATION

4.1 Audit Committee considered the 2019/20 Audit Findings Report at its meeting on 20 May 2021.

5. CONCLUSION AND REASONS FOR RECOMMENDATIONS

5.1 The Panel is asked to consider the progress on implementation of the recommendations in the External Audit Findings Report for 2019/20.

6. CONTRIBUTION TO THE CARLISLE PLAN PRIORITIES

6.1 Proper and appropriate financial management enables the Council to achieve the priorities set out in the Carlisle Plan.

Contact Officer:	**Steven Tickner**	**Ext: 7280**
Appendices attached to report:	**Appendix A – External Audit Findings Report Action Plan 2019/20** **Appendix B – Follow Up of Prior year recommendations**	

Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: • None

CORPORATE IMPLICATIONS/RISKS:
Legal – None.

Finance – contained within the report

Equality – None

Information Governance - There are no Information Governance Implications

Property – Asset valuations form part of the Council's balance sheet

Appendix A – 2019/20 AFR Action Plan

Issue and Risk	Recommendation	Management Response	Update on Actions taken to address the issue
Revaluations We identified significant concerns with the approach used to calculate DRC and other revaluations by the valuer.	Complete a quality assurance check on valuations to ensure the basis of valuation is appropriate and that the related revaluations key assumptions and data sets used are reasonable.	The Council will review its process for the appointment of external valuers to support the valuation process. This will include using sector specific valuers for different assets in the portfolio to ensure valuations are as accurate as possible and that the correct bases are used.	We have undertaken a thorough quality review of the 2020/21 asset valuations process with finance logging queries on the bases of valuation and any significant change in the indices used or movement in valuations from previous year. The valuer is the same valuer that undertook the valuations in 2019/20 so we have greater confidence in the information provided. Property have also undertaken a sample check of the calculations to arrive at valuations and have satisfied themselves that on the assets checked all are in order. All queries and responses have been logged.
Capital Projects The total costs on the Sands Centre Redevelopment continues to increase from the initial £14.2 million to £27.2m. Any capital programme overruns should be closely monitored to ensure the Council does not breach its treasury management limits.	Arrangements for costing current and future major capital projects need to be improved to ensure they are realistic and carry sufficient contingency plans. Capital costs need to be closely managed to keep additional borrowing to a minimum and to avoid breaching treasury management limits.	Capital schemes are monitored closely and option appraisals carried out to ensure the schemes offer value for money and affordability. The Sands scheme, although increasing in cost, was measured against the original aspiration of maintaining any borrowing costs within the subsidy saving achieved in the new leisure contract awarded in 2017.	The Council is ensuring that capital projects are robustly costed and has provided resources for management of capital projects through the 2021/22 budget process. A Project Management Office is also being established for the major projects to be delivered through the Future High Streets Fund, Town Deal and St. Cuthbert's Garden Village. The Sands Project is monitored on a weekly basis by an internal project manager and key officers, as well as having regular meetings with the external project support and contractor.

Issue and Risk	Recommendation	Management Response	Update on Actions taken to address the issue
Run Rate A review of the Councils reserves from the past three years and looking at the budgets for the following two years shows the Council has continued to use reserves to fund the 2020/21 budget.	Monitor the run rate on usable reserves to ensure general fund unearmarked reserves are maintained at a reasonable level.	The Council monitors reserve levels at budget and outturns and ensures that where reserves are used in the short term, that there is a longer-term plan to achieve minimum levels. The Council has a history of being underspent at year-end meaning that reserves are often higher than planned when budgets are set.	Reserves are closely monitored, and minimum levels of GF Balances are risk assessed as part of the MTFP prior to the budget process. Any additional requirement from GF balances requires Council approval and would only be recommended if reserves were maintained above minimum levels. Use of reserves is then also considered as part of the budget process and the fact that the MTFP and budget provide indicative impact of spend over the following 5-year, provides the Council with security that reserves are being maintained at appropriate levels. For 2020/21 the Council was significantly under spent and has increased the level of GF Reserves.
Medium Term Financial Plan The medium-term financial plan includes various assumptions which includes an increase of income over inflation. As the Council is heavily exposed to reliance on investment income to deliver its financial objectives, the impact on future revenue streams needs very close monitoring and management to maintain the Council's financial health.	Carry out a detailed sensitivity analysis around the key uncertainties and assumptions included in future budget outturns and revisions to the MTFP to assist agile financial management to secure the Council's medium term financial sustainability, in the light of the uncertain context for Local Government.	Income budgets have been thoroughly reviewed at the budget setting process for 2020/21 and continue to be monitored closely as part of the budget monitoring process.	Income continues to be closely monitored through the budget process and where necessary changes to budgets are reflected. The MTFP for 2022/23 now includes greater use of sensitivity analysis and the impact that certain income streams have on the overall budget. Where income is uncertain or subject to increased volatility this has been identified.

Appendix B – Follow Up of prior year recommendations

Assessment	Issue and Risk Previously communicated	Update on actions to address the issue
Complete	There is a savings gap in the MTFP of £1.242m. General fund balances have fallen by 19% from £5.7m at 31 March 2018 to £4.6m at 31 March 2019. Overall usable reserves have fallen by 15% from £12.1m to £10.3m as at 31 March 2019.	Work is progressing on the base budget review and the overall savings target to identify £1million of savings for 2021/22. Reports will be represented to SMT and Members as part of the 2021/22 budget process. A commercialisation Strategy will be developed, a recommendation from the recent Peer Challenge and BTSP will provide support in the shape of a Task & Finish Group.
Partial	There has been a significant increase in the capital cost of the Sands Centre redevelopment. The total cost of the Sands Centre redevelopment project has increased from an initial £14.2 million then £20.122 million to £27.2 million.	Further reports have been considered by the Executive with a final report approved by full Council (Special 13th October 2020) which approved the project and increased funding required scheme after considering potential additional costs including the impact of COVID-19. This also included a further analysis to ensure that the project continued to be financially viable and was supported by an update Business case including the impact on treasury management projections. This is now reflected in the MTFP, which also provides a sensitivity analysis on the main items of Council income and expenditure. Detailed reports and business cases continue to be considered for major capital schemes; with monitoring of progress forming part of the quarterly monitoring process
Partial	The Council is involved in significant capital projects relating to the Sand Centre, Gateway 44 and the Southern link road, which require significant external borrowing.	These are kept under review as part of the Capital Investment Plan, TMSS and quarterly treasury management reporting. Forward balance sheets have been reviewed with the Council's Treasury Advisors to understand future borrowing requirements based upon market conditions, and in accordance with its capital programme and agreed borrowing limits.

EXCERPT FROM THE MINUTES OF THE AUDIT COMMITTEE HELD ON 20 MAY 2021

AUC.17/21 EXTERNAL AUDIT FINDINGS FOR CARLISLE CITY COUNCIL

The Director, Audit (Grant Thornton) submitted the External Audit Findings Report for the year end 31 March 2020.

The external audit was now complete and subject to the Committee's consideration of the report, the work would be signed off with the final report being issued on 21 May 2021.

The Director, Audit (Grant Thornton) noted that an earlier version of the report (submitted to the Committee at its meeting of 18 December 2020), had identified asset valuations in respect of Property, Plant and Equipment (PPE) assets valued under the Depreciated Replacement Cost (DRC) basis required further assurance.

Following a revaluation of the assets, multiple adjustments to the Council's Financial Statements had been required: at the 2020 year end PPE asset values had increased from £57.7M to £73.7M, investments assets had increased from £79.9M to £90.5M. Due to the significant differences in the valuations, it was necessary to restate the 2018/19 and 2017/18 valuations to ensure consistency in the figures shown in the balance sheet. This had also resulted in additional disclosures being required for Prior Period Adjustments (Paragraph 1.7 of the Narrative Statement on page 9 and Note 4.1 on page 43 of the accounts) on what the effect of the revised valuations on the main financial statements (including prior year comparator figures).

The need for the revaluation had been identified following the original valuer not providing appropriate responses to challenges from the External Auditor. Accordingly, the Council reviewed the original valuations and instructed a new valuer to assess the Council's portfolio, which had led to the revised values cited above. Grant Thornton were satisfied that the new valuations were robust and the Director, Audit was able to assure the Committee that the asset base valuations were now solid. A high level recommendation had been raised requiring the Council to complete quality assurance check on the valuations to ensure that the basis of valuations, key assumptions and data sets employed were reasonable.

The Director, Audit (Grant Thornton) commended the Corporate Director of Finance and Resources and the Financial Services Manager (Deputy S.151) for their mature response and handling of the revaluation process.

Grant Thornton's work was substantially complete and there were no matters of which they were aware that would require modification of their audit opinion as outlined in Appendix E, or material changes to the financial statements. The Audit had been completed providing the Council with an unqualified opinion on both the Accounts and the VFM conclusion.

Turning to the issue of fees, the Director, Audit advised that the fees would be significantly more than the originally sum of £51,000 as substantial additional time had been charged to the audit through a combination of a rescheduled start to the audit and the audit on Property Plant and Equipment and Investment Property would require full re-performance. As a result, the new fee was expected to be £81,210, subject to the appropriate approval processes. It was expected that the Annual Audit Letter would be produced in the coming month it would include a detailed breakdown of the additional fees.

In considering the External Audit Findings for Carlisle City Council, Members raised the following comments and questions:

Was the increased audit fee solely related to the PPE revaluation work?

The Director, Audit (Grant Thornton), responded that the majority of the increased fee was as a result of the revaluation work, additional costs related to remote working had been factored into the fee prior to the PPE work. It was further noted that, as a result of the Redmond Review there would likely be a significant increase in audit fees going forward; the proposed fee for next year had been shared with management.

Why has the revaluation of the PPE assets increased their value so significantly?

The Corporate Director of Governance and Resources explained that it had transpired through the external audit process that the original valuer had used inappropriate bases in their valuations. The valuer appointed to carry out the revaluation work had used relevant bases therefore their valuations were considered much more robust.

The Corporate Director of Finance and Resources advised that at the time of appointment, the new valuer had been asked to conduct the valuations for 2021. That data had been received and was undergoing review by the Property Services Team to ensure the accuracy of the information. A tender process to appoint a new valuer would be undertaken in due course.

What impact had the revaluations had on the insurance of the assets?

The Financial Services Manager (Deputy S.151) responded that, in terms of the balance sheet the property valuation and insurance valuations were not the same due to their different focuses. The insurance valuation comprised data relating to rebuild costs, effects of wear and tear etc. The insurance valuation was updated and reviewed annually as part of its tender process.

A Member proposed that Appendix A (Action Plan) and Appendix B (Follow up on prior year recommendations be referred to the Business and Transformation Scrutiny Panel for information and ongoing monitoring. The Committee indicated its assent.

RESOLVED – That the Audit Committee:

(1) Noted and received the very positive External Audit Findings Report for the year ended 31 March 2020.

(2) Recognised the excellent work undertaken by the Financial Services Team, and the success in achieving the statutory close down. The Committee also recognised the contribution of the Grant Thornton team.

(3) Referred Appendix A (Action Plan) and Appendix B (Follow up on prior year recommendations) be referred to the Business and Transformation Scrutiny Panel for information and ongoing monitoring.