

Report to Business & Transformation Scrutiny Panel

Agenda
Item:

A.6

Meeting Date: 3 December 2019
Portfolio: Finance, Governance and Resources
Key Decision: No
Within Policy and Budget Framework
Public / Private Public

Title: EXTERNAL AUDIT FINDINGS FOR CARLISLE CITY COUNCIL 2018/19
Report of: Corporate Director of Finance and Resources
Report Number: RD.42/19

Purpose / Summary:

The Audit Committee, at their meeting on 30 July 2019, referred the Action Plan to the Business and Transformation Scrutiny Panel to inform their scrutiny of the Medium Term Financial Plan and Capital Programme.

Recommendations:





To consider the Action Plan as part of the scrutiny of the Medium Term Financial Plan and Capital Programme.

Tracking

Executive:	
Scrutiny:	3 December 2019
Council:	

Action plan

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	 <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Identify potential recurrent savings or income generation opportunities to address the current savings gap and the projected revenue reductions, whilst also monitoring the run rate on its use of revenue reserves. <p>Management response</p> <ul style="list-style-type: none"> The budget for 2020/21 will include an exercise to identify any base budget savings through a zero based budget review and further savings and income generation opportunities will also be examined in line with the Council's agreed Savings Strategy. The level of reserves is closely monitored through the MTFP with a risk assessment of the minimum level required to adequately protect the Council from the potential risks identified. The level of reserves are carefully considered when setting the budget and the forecasts for future years.
2	 <ul style="list-style-type: none"> The total cost of the Sands Centre redevelopment project has increased from an initial £14.2 million then £20.122 million to £25.301 million. 	<ul style="list-style-type: none"> Update the MTFP to reflect the revised projected costs for the Sands Centre redevelopment, and include a sensitivity analysis of revenue costs based on changes in variables such as interest rates. <p>Management response</p> <ul style="list-style-type: none"> The MTFP for 2020/21 – 2024/25 has been updated for the Sands project and will be considered by Executive in August and Council in September 2019. Further analysis on borrowing will be included where necessary.
3	 <ul style="list-style-type: none"> See above, there has been a significant increase in the capital cost of the Sands Centre redevelopment. 	<ul style="list-style-type: none"> Review the arrangements for costing future major capital projects. <p>Management response</p> <ul style="list-style-type: none"> All capital projects are subject to detailed reports and appraisal to ensure they offer value for money and are affordable. Recent examples of Sands Development and Gateway 44 demonstrate robust reports and challenge by members and officers prior to being given the go ahead.
4	 <ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Monitor borrowing levels to ensure that the Authorised Borrowing Limit is not breached. <p>Management response</p> <ul style="list-style-type: none"> The Authorised Limit and Operational Boundary will be kept under review and will be updated for current projections in the MTFP to be considered by Council in September. Further amendments will be included in the updated Treasury Management Strategy Statement for 2020/21.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

EXCERPT FROM THE MINUTES OF THE AUDIT COMMITTEE HELD ON 30 JULY 2019

AUC.35/19 EXTERNAL AUDIT FINDINGS FOR CARLISLE CITY COUNCIL 2018/19

The Key Audit Partner (Grant Thornton) submitted a report summarising the audit findings and other matters arising from Grant Thornton's statutory audit of the City Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Referencing page 7 of the document pack, the Key Audit Partner summarised in some detail the three headline messages concerning the financial statements; value for money arrangements; and statutory duties.

No adjustments to the financial statements that had resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement had been identified. Audit adjustments were as detailed in Appendix C, in addition to which recommendations for management as a result of Grant Thornton's audit work had been raised in Appendix A, with the follow up of recommendations from the prior year's audit being detailed at Appendix B.

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.

That said, there were two un-adjusted audit matters appertaining to the recent judgement made in the Court of Appeal in the Sargeant / McCloud cases concerning pension liability which ruled that the transitional protections afforded to older members when the Public Service Provision schemes were amended constituted unlawful age discrimination. That was a national issue, affecting all public sector authorities, and one which had resulted in a considerable amount of work for both officers and external audit.

The Key Audit Partner indicated that, as reported at the last meeting, the Cumbrian local authorities had collectively asked Mercers to undertake work on their behalf and provide an updated estimate of the potential impact of the McCloud ruling. That indicated an increase in past service cost and therefore an increase in net liability of £0.273m. The impact thereof was estimated to be an:

- Increase in past service costs +£1.020m
- Increase in net pension liability +£1.020m

Effectively, the younger the workforce, the greater the potential liability would be. The average age of Local Government Pension Scheme members was 46 years, the City Council's average being 46.7. Some additional assurance could be taken therefrom.

Management had assessed the work undertaken by Mercer and judged that the potential impact on the Council was not material, and therefore had decided not to update their financial statements in relation to those amounts.

The Key Audit Partner emphasised that, importantly, the decision taken by management not to amend the statements was not unreasonable from Grant Thornton's perspective. Subject to outstanding queries being resolved, Grant Thornton planned to issue an unqualified audit opinion on the financial statements which was excellent.

Members' attention was drawn to the key findings against the significant risks identified through Grant Thornton's initial risk assessment and further risks identified through their ongoing review of documents, details of which were provided.

The Key Audit Partner was delighted to report that, having undertaken a very detailed review, he anticipated issuing an unqualified value for money conclusion that in all significant respects, the City Council had 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 2019. Nevertheless, it would moving forward be necessary for the Council to retain focus on the issues identified in the conclusion on page 22 of the pack, including the rate run on the use of useable reserves and the latest projected costs for the Sands Centre Redevelopment project. That was particularly important pending the outcome of the Fair Funding Review.

Thirdly, he was pleased to report that Grant Thornton had not required to exercise the additional powers and duties for local government auditors.

Turning to the issue of fees, the Key Audit Partner advised that an additional audit fee of £1,500 would be charged (subject to Public Audit Board approval) for the additional work associated with the McCloud ruling alluded to above. It was important to note that audit fees had reduced significantly over recent years and the fees charged were in line with those charges across the board.

In conclusion, the Key Audit Partner commented upon the enormity of the task, adding that the Council had done an excellent job in achieving a clean bill of health. He thanked the Corporate Director of Finance and Resources; the Financial Services Manager (Deputy S.151) and the Principal Accountant for their work.

The Engagement Manager then presented the remainder of the report in greater detail. In so doing, he outlined at length Grant Thornton's approach to materiality; the significant findings – audit risks identified in their Audit Plan; other issues; key judgements and estimates; going concern; other communication requirements; and other responsibilities under the Code.

On a point of note, the Engagement Manager commended the Corporate Director of Finance and Resources and the Financial Services Manager (Deputy S.151) for the high-quality documentation produced, the Narrative Report being held as an example.

The Engagement Manager also provided an explanation of the background to their Value for Money approach and work, together with the key findings and conclusion emanating therefrom; the independence and ethics disclosures; the Action Plan at Appendix A; follow up of prior year recommendations at Appendix B; and audit adjustments set out at Appendix C.

A Member welcomed the very positive and detailed Audit Findings Report, together with the robust work undertaken by the Financial Services team.

The Key Audit Partner congratulated Officers for production of what was an exemplary, clear and transparent Narrative Report. He had challenged others to do likewise.

Speaking on behalf of the Committee, the Chairman echoed the sentiments expressed.

RESOLVED – That the Audit Committee:

(1) Noted and received the very positive External Audit Findings Report for the year ended 31 March 2019.

(2) Welcomed the unqualified opinion on both the Financial Statements and the Value for Money conclusion.

(3) Noted that the final audit fee would include an additional fee to reflect the additional work undertaken by Grant Thornton in relation to the McCloud ruling.

(4) Supported the decision taken by management not to amend the Financial Statements to reflect the McCloud judgement.

(5) Referred the Action Plan to the Business and Transformation Scrutiny Panel to inform their scrutiny of the Medium Term Financial Plan and Capital Programme.

(6) Recognised the excellent work undertaken by the Financial Services Team, and the success in achieving the statutory close down. The Committee was also most appreciative of the contribution of the Key Audit Partner, the Engagement Manager and the Grant Thornton team.