A.1

Audit Findings

Year ending 31 March 2018

Carlisle City Council

30 July 2018

Contents

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Headlines

This table summarises the key issues arising from the statutory audit of Carlisle City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the Council's financial statements give a true and fair view of the Council's financial position and of the Council's expenditure and income for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise. These include the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report	Our audit work was completed on site during June and July 2018. Our findings and audit adjustments are summarised in appendix C. We have identified one error in the financial statements that has resulted in a £2.413m adjustment to the Statement of Comprehensive Income and Expenditure (CIES). This error has reduced both income and expenditure, which has had no net impact on the Council's surplus. This also required a prior period adjustment to the 2016/17 CIES. Other audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are also detailed in Appendix B. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2018, as detailed in Appendix E. The only outstanding item is receipt of the management representation letter. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent with our knowledge of your organisation and with the financial statements we have audited. The post audit AGS was amended to include explicit reference to a clear conclusion certification section, response to external audit findings and assurances on scrutiny function and data quality arrangements. The Narrative Report was also updated for use minor omissions as outlined on page 11.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Carlisle City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Therefore, we anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 15 to 16.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit report opinion.

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion as detailed in Appendix E, following the Audit Committee meeting on 30 July 2018. The only outstanding item relates to the receipt of management representation letter.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan, and the materiality levels set have not changed from those reported in out audit plan.

	Council Amount (£)
Materiality for the financial statements	1,188,000
Performance materiality	832,000
Trivial matters	59,000
Materiality for specific transactions, balances or disclosures	
Related Party Transactions	4,000
Senior Officer Remuneration	9,000

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Revenue may be misstated due to the improper recognition. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Carlisle City Council, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for Carlisle City Council.
2	**Management override of controls** 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 identified management override of controls as a risk requiring special audit consideration.	**We have:** • gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness • obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness • evaluated the rationale for any changes in accounting policies or significant unusual transactions. We have not identified any issues which require reporting through our work on management override of controls.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**Valuation of property, plant and equipment** The Council revalues its land and buildings and investment property on an annual basis to ensure that carrying value is not materially different from current value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**We have:** • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • given consideration to the competence, expertise and objectivity of any management experts used • discussed with the valuer the basis on which the valuation is carried out and challenge the key assumptions • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • tested revaluations made during the year to ensure they are input correctly into the Council's asset register • 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. In appendix C we have identified one amendment to the disclosure of asset lives, based on our review of the Council’s Fixed Asset Register. In appendix A we have made one recommendation relating to the revaluation processes and controls in place. It was identified that two assets, which were intended to be revalued, were not included in the instructions sent to the valuation expert. Although these assets were not material, this indicates a potential control weakness in the process for supplying assets to be revalued to the valuation expert.
4	**Valuation of pension fund net liability** The Council's pension fund assets and liabilities as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**We have:** • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated • assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out • undertaken procedures to confirm the reasonableness of the actuarial assumptions made • Checked the consistency of the pension fund asset and liability position and disclosures in notes to the financial statements with the actuarial report. We have not identified any issues which require reporting through our work on the valuation of pension fund net liability.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
1	**Employee remuneration** Payroll expenditure represents a significant percentage of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	**We have:** • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness • gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls • obtained the year-end payroll reconciliation and ensured amount in accounts can be reconciled to ledger and through to payroll reports and investigated significant adjusting items • agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and reviewed any estimates for reasonableness. We have not identified any issues which require reporting through our work on the completeness of employee remuneration.
2	**Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention.	**We have:** • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls • obtained a listing of non-pay payments made in April, and sample tested to ensure that transactions have been charged to the appropriate year. We have not identified any issues which require reporting through our work on the completeness of operating expenditure.

Going concern

Our responsibility

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) 570).

Going concern commentary

Management's assessment process	
The Council has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and that no material uncertainties exists.	• The Council’s use of the going the concern basis of accounting is appropriate. • The Council’s assessment of going concern was communicated to us in the Audit Committee Chair’s letter to us dated 16 April 2018.
Work performed	
We discussed the financial standing of the Council with the Deputy Chief Finance Officer and reviewed management's assessment of going concern and the assumptions and supporting information.	• No material uncertainty has been identified. • Explicit disclosure of going concern as the basis of the preparation of the accounts is made in the Narrative Report. Further disclosure has been added to the Narrative Report to disclose why the Council is a Going Concern to support the basis of accounting.
Concluding comments	
The Council’s use of going concern basis of accounting is appropriate and is explicitly referenced in the Statement of Accounts.	• Our opinion is unmodified in respect of the going concern conclusion.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• 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.	• Our review of revenue recognition policies and testing of material revenue streams has not highlighted any issues, which we wish to bring to your attention.	Green
Judgements and estimates	• Key estimates and judgements not already included within other sections of this report are: – Useful life of PPE – Accruals – debtors and creditors – Provision for NNDR appeals – Other provisions.	Work on these other judgements and estimates has not highlighted any further issues, which we wish to bring to your attention. Work on IAS19 valuation and PPE and investment property asset valuations are reported on page 6.	Green
Other critical policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	Green

Assessment
- Marginal accounting policy which could potentially be open to challenge by 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 Audit Committee. We have not been made aware of any other 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**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You 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, which is included in the Audit Committee papers.
5	**Confirmation requests from third parties**	• We obtained direct confirmations for loans, investments, and bank accounts. This permission was granted by management and the requests were sent, and all have been received.
6	**Disclosures**	• Our review found no material omissions in the financial statements, but Appendix C does outline the disclosure errors and omissions found during the course of the audit which management has corrected.

Other responsibilities under the Code

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

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified but some omissions on the AGS have been adequately rectified by management. These included explicit reference to a clear conclusion certification heading, response to external audit findings and assurances on scrutiny function and data quality arrangements. The Narrative Report was produced to a good compliance standard and we commend the Council on its clear and concise reporting on non-financial performance. We did recommend some changes to the Narrative Report, which management have implemented, namely on: • core values, culture and ethics that underpin the Council's actions and decision making arrangements • being explicit on the operational model in line with the International Integrated Reporting Council framework to demonstrate inputs through to outputs, outcomes and value creation • disclosing that materiality has been applied to support the basis of preparation and presentation of the Statement of Accounts. We plan to issue an unqualified opinion in this respect, as outlined in Appendix E.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas if: • the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • we have applied any of our statutory powers or duties. We have nothing to report on these matters. We identified that the Council did not have a fully documented assurance gathering process in place for all Directorates. Formalising these arrangements allows the Council to easily demonstrate how its governance framework as outlined in the AGS is operating in practice. A recommendation in relation to this issue has been included in Appendix A.
3	**Specified procedures for Whole of Government Accounts**	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. • Note that work is not required as the Council does not exceed the threshold.
4	**Certification of the closure of the audit**	We intend to certify the closure of the 2017/18 audit of Carlisle City Council in the audit report opinion, as detailed in Appendix E.

Value for Money

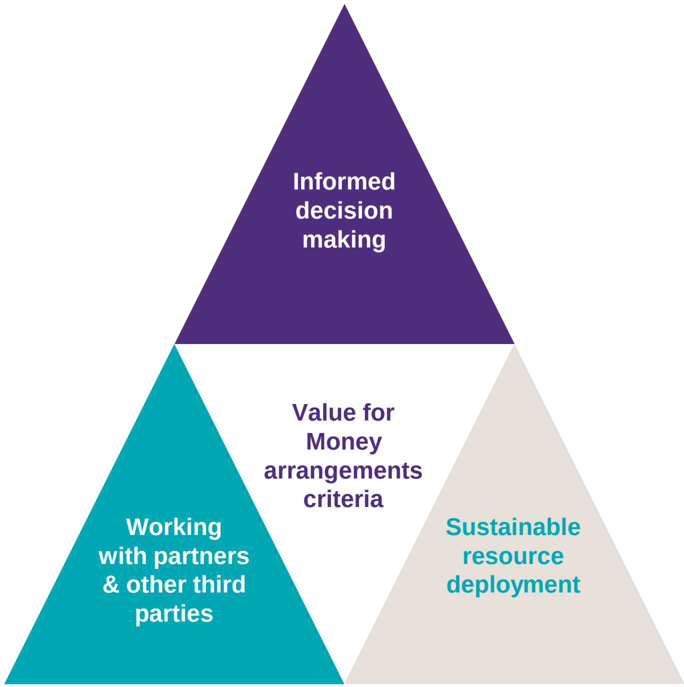
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in Auditor Guidance Note (AGN) 03. We communicated this risk to you in our Audit Plan dated March 2018.

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 risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

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 risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the budgetary processes in place to be able to produce a robust Medium Term Financial Plan (MTFP);
- a review and challenge of the key assumptions underpinning the Council's MTFP.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 14 to 16.

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.

Our unqualified VfM conclusion is in our audit report can be found at Appendix E.

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.

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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings
1	**Significant service transformation projects and the Medium Term Financial Plan (MTFP)** • The Council's MTFP is predicated on delivering changes to the way in which services are delivered. The Council has identified proposals for reducing spending and increasing efficiency. The programme includes a number of key projects, including internally reshaping the Council.	The Medium Term Financial Plan (MTFP) approved by Council in September 2017 demonstrated that appropriate steps were being taken to ensure a balanced budget position was maintained despite reduced Government funding. A Savings Strategy is in place and continues to focus on assets, service delivery models and the 'Transformation Programme' to deliver the savings required to produce a balanced longer-term budget. The MTFP for 2018/19 to 2022/23 identified savings of £2.274 million. In addition, a savings requirement for 2017/18 of £0.795 million was identified, with £0.395 million achieved. £0.4 million of 2017/18 savings were not achieved due to the 'Rethinking Waste' initiative policy decision not being followed by the Council. A replacement savings initiative is yet to be identified by the Council, which will put further recurring savings pressures on 2018/19. However, this can be adequately absorbed by the General Fund in 2017/18, with a forecast balance well in excess of the £2 million minimum set by the Council in 2018/19. The Council should ensure that it remains agile to unexpected changes in policy, and proactively identifies alternative options to current funding streams or savings initiatives, should these become unachievable due to unexpected events, changes in the economic climate or Council policy decisions. In May 2018, the Council had to take emergency action to make safe a dangerous structure within Carlisle under section 78 of the Building Act 1984. This has led to a £0.650 million contribution from the Council's General Fund Reserves in 2018/19, putting further pressure on usable reserves. This instance, alongside the 'Rethinking Waste' policy decision, highlights the need for the Council to identify additional savings requirements and income generation initiatives beyond the minimum required in order to meet potential unforeseen budgetary pressures. During 2017/18 as part of the 2018/19 budget compilation process, a detailed base budget review including an analysis of core budgets was undertaken. This provided an additional level of challenge and rigour within the budget setting process, to ensure all potential savings were identified. The Council is faced with a continual reduction in Central Government funding, which is making identifying savings increasingly more difficult. It will be essential therefore to ensure that its savings plans continue to be clearly communicated, monitored, linked to specific policy decisions, service reviews and on-going rationalisation of the workforce. As well as reducing expenditure, the Council is under increasing pressure to identify innovative methods of income generation. The Council's involvement in wider economic regeneration schemes including the Borderlands Initiative and the St Cuthbert's Garden Village further highlights the requirement to be innovative in its approach to spending and generating income. The Council has a comprehensive approach to its medium term financial planning, budgeting and identification of saving 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.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings
1	**Significant service transformation projects and the Medium Term Financial Plan (MTFP)**	A proportion of the Council's income is received from rental income from its investment properties, with an element of this relating to retail units. City centres face increasing pressure from the downturn in profits of high street stores and the increase in online sales, with a number of high profile store closures occurring across the country, including in Carlisle. Whilst the majority of the rental income is based on property leases with set rent, a significant element is contingent, based on the performance of the tenants holding the retail space. The Council should challenge the assumption of continual rental growth on these properties and ensure scenario planning is undertaken based on the potential future outcomes for the City centre. Evidence has been provided to support the income assumptions in the MTFP, but these should be continually reviewed and challenged going forward. During 2016/17 the Council undertook a review of their arrangements for the accounting for Minimum Revenue Provision (MRP) for 2017/18 onwards. As part of the review, the Council has taken a payment holiday for items identified totalling £1.1 million from 2003/04 to 2015/16 for voluntary MRP of £0.9 million, and a charge made in error for assets under construction of £0.2 million. The Council has reduced the MRP charge over the five year period from 2017/18, with a £0.226 million reduction in the current projected MRP charge in each year. During 2017/18, the Council has further reviewed their MRP policy for 2018/19 onwards. The Council has reviewed their calculation for 'Adjustment A', which was made on 1 April 2004, and identified a potential error in the calculation. The impact of this potential error is calculated by the Council as £2.146 million, with the MRP charge being reduced by £1.876 million over the five year period covered by the MTFP. The Council has sought legal advice on the above changes to the MRP policy due to its statutory nature, with the advice giving the opinion that the amendments are allowable. The change in MRP charged from 2018/19 onwards due to this potential error in 'Adjustment A' is still subject to audit, as the accounting impact is in 2018/19. Therefore, the Council should identify alternative methods of reducing expenditure or generating income, should this amendment be found to be inappropriate. Whilst reducing the MRP charged to the General Fund does improve the reserves position, this is short-term non-recurring solution to medium to long term financing challenges. Looking forward, the Council should seek to identify opportunities to reduce expenditure or generate further income through long-term focussed initiatives rather than reliance on accounting adjustments. The capital outturn for 2017/18 was £9.571 million against a £11.240 million budget. All of the £1.669 million underspend/ slippage on the capital programme has been carried forward and re-profiled over future years. The revenue outturn for 2017/18 was an underspend of £2.553 million. Of this amount £0.664 million is carried forward into the next period, and £1.276 million has been placed into earmarked reserves. The Council has a history of revenue underspends, generated through a combination of reduced expenditure as well as some income streams outperforming budgets.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

	Significant risk	Findings
1	**Significant service transformation projects and the Medium Term Financial Plan (MTFP)**	In the Audit Findings Report for 2016/17, a recommendation was made to the Council to re-profile the capital programme at regular intervals during the financial year. This recommendation has been adequately implemented in the quarterly budget monitoring report, which re-profiles the capital programme as necessary. The significant impact of the December 2015 floods upon assets continue to affect the Council's services and finances. As part of the 2015/16 outturn a flood reserve of £0.5 million was created for future non-insured costs of flood recovery. The flood reserve has increased by £1.514 million to £2.014 million at 31 March 2018, as flood insurance income was received in excess of the works carried out to date. The £2.014 million held in the flood reserve is to fund repairs to the Civic Centre and Bitts Park. During 2017/18 the Council has made progress on bringing affected assets back into use, most significant of which is the Sheepmount becoming operational again, and decisions being made on the future of the affected areas of the Civic Centre. The Council made significant progress during 2017/18 on the proposal to redevelop the Sands Centre to support the delivery of the Council's 'Sports Facilities Strategy'. The proposal was supported by a detailed options paper, which clearly communicated the potential cost of each option for the redevelopment. The cost is currently estimated to be £19.467 million, of which £17.467 million is to be funded by the Council, with the preferred financing option being through the use of external borrowing. This is in excess of the £5 million capital redevelopment costs which were assumed in the initial MTFP. The full impact of the increased cost has been factored into the budget for 2018/19 in terms of the capital and revenue impact. **Conclusion** **Based on the review of the arrangements in place during 2017/18 for the compilation of the MTFP including identified savings, we concluded that the overall risk was sufficiently mitigated and that the Council has proper arrangements in this area.**

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, directors, senior managers, managers). In this context, we disclose the following to you:

- One of the audit team has a family member who works as a team leader in the Revenues and Benefits department at the Council. This is not deemed to be a significant independence risk. To comply with independence standards and transparency we are disclosing to you that this member of the audit team will not be involved with the Housing Benefits Subsidy certification work, nor with any other elements of the audit that relates to Housing Benefits. Instead, our work in these areas will be carried out by other audit staff.

- Commencing 1 November 2016, Grant Thornton UK LLP entered into a short-term tenancy lease for a small portion of the 7th floor of the Civic Centre, Carlisle. We have considered the ethical standards and any potential threats to our independence resulting from this arrangement. However, the nature of the lease arrangement is between the Council and Grant Thornton UK LLP and not the local audit team, and the sums involved, are clearly insignificant to either party.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Housing Benefits subsidy grant	16,852	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £16,852 in comparison to the total fee for the audit of £53,290 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member firms will be included in our Audit Findings Report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Action plan

We have identified two 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 2018/19 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	Green	• It was noted through the review of the Council's Fixed Asset Register that a number of assets which had been either disposed of or fully depreciated, are being carried in the Fixed Asset Register at nil value.	• Review the Fixed Asset Register and write-out any assets carried at nil value which are not in use by the Council. **Management response** • Assets will be reviewed during 2018/19 to ensure any carried at nil value and are not in use are removed.
2	Amber	• From a completeness reconciliation of asset data provided to the external valuer for the purposes of the valuation, it was identified that two assets requiring valuation, were missed and as a result were not valued by the valuer. Whilst the value of these assets was immaterial, this is an indication of a potential control weakness	• Undertake a completeness reconciliation between the Fixed Asset Register and the instructions to the valuer to ensure all assets which are intended to be revalued are included. **Management response** • Finance will confirm with Property Services that the asset revaluation instructions include all assets subject to revaluation.
3	Green	• We identified that the Council did not have assurance gathering processes in place for all Directorates. Formalising these arrangements allows the Council to easily demonstrate how its governance framework as outlined in the AGS is operating in practice.	• Review the Council's assurance gathering arrangements to underpin future AGS disclosures on its governance framework. **Management response** • Consideration will be given to developing and implementing a questionnaire to be sent to all directorates to ensure all potential issues to be included in the Annual Governance Statement are identified.

Controls

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

Value for Money action plan

We have identified two Value for Money 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 2018/19 audit.

	Assessment	Issue and risk	Recommendations
1	Amber	• There are well documented challenges to City Centres across the country in the current economic climate due to the closure of several high profile retail outlets. Carlisle City Council generates a significant amount of revenue from rental income relating to retail properties.	• Ensure that scenario planning is undertaken based on the potential future City Centre related revenue streams. **Management response** • Consideration will continue to be given to the impact on the MTFP of the City Centre challenges throughout the budgetary cycle.
2	Amber	• Through our review of the Medium Term Financial Plan, we have identified a gap in the savings achieved for 2017/18 due to a change in Council priorities which has placed an increased savings pressure on 2018/19.	• Proactively identify alternative savings or income generations initiatives for those identified which are based on policy decisions being followed through. **Management response** • Consideration will be given to savings requirements and the impact of these on the MTFP during the budgetary planning cycle.

Controls

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

Follow up of prior year recommendations

We identified the following issues in the audit of Carlisle City Council's 2016/17 financial statements, which resulted in 6 recommendations being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented all of our recommendations, although we have identified further issues relating to one of the recommendations raised.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	• Provide external audit with the Authority's rationale and workings for the proposed 2017/18 MRP 'payment holiday for previously charged MRP. • This will enable external audit to obtained a technical view on the accounting treatment proposed.	• This was in relation to the Council's changes to the MRP policy in 2017/18. This documentation was provided to the external auditors, for the audit of the 2017/18 statement of accounts, with no issues arising.
2	✓	• Conduct a review of the local Code of Governance to include the new principles in the CIPFA/SOLACE 2016 'Delivering Good Governance in Local Government Framework'.	• This was completed by the Council in April 2018, and the updated local Code of Governance was made available to external auditors as part of the audit of the Annual Governance Statement.
3	✓	• Conduct a review of the leases working paper to source documentation, with issues noted in both 2015/16 and 2016/17.	• Management have satisfactorily updated lease working papers to source documentation. • A separate issue relating to lease disclosures has been identified in appendix C.
4	✓	• Carry out calculation checks in the draft set of financial statements prior to their submission for audit.	• The Statement of Accounts provided for audit in 2017/18 were of a high standard with minimal calculation errors identified.
5	✓	• Ensure that the 'new borrowing rate' is the rate used for the financial instruments note for the long-term borrowing, as the same issue was noted in both 2015/16 and 2016/17.	• The 'new borrowing rate' was used for the fair value of long-term borrowing in the financial instruments note.
6	✓	• Re-profile the capital programme at regular intervals during the financial year.	• The capital programme is monitored throughout the year as part of the Capital Programme Monitoring Report through the Transformation sub-group and SMT, which is appropriate.

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements
All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1	**Internal Recharges – Income and Expenditure** The audit of note 4.12 'Expenditure and Funding Analysis' identified £2.413m of income classified as 'internal recharges'. Under the CIPFA Code of Practice, recharged income and expenditure which is internally generated and nets off within the CIES is to be removed and not separately reported. Therefore income and expenditure in 2017/18 has been reduced by £2.413m with no impact on total net expenditure. This also required a prior period adjustment to remove recharged income and expenditure of £2.342m from the CIES in 2016/17. A prior period adjustment note has been added to the Statement of Accounts to explain the amendment.	2,413 (2,413)	0	0
	Overall impact	£0	£0	£0

Audit Adjustments

Misclassification 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. **Disclosure**	Numerous	Note 4.42 – Leases	Our review of the leases working papers identified that the Council only included leases with a rental value of over £10,000 in the disclosure. Initial analysis indicated that this could be causing a material disclosure omission in the financial statements. The leases working paper was updated to include all leases, and resulted in a number of disclosure amendments to note 4.42. The overall split of the amendments are as follows: • under 1 year changed by £0.063 million from £0.969 million to £1.031 million • 2 – 5 years changed by £0.626 million from £2.265 million to £2.891 million • over 5 years changed by £9.916 million from £35.059 million to £44.975 million • Contingent rent changed by £0.428 million from £2.937 million to £3.365 million. This also affected the 2016/17 disclosure, and this has also been amended to reflect the inclusion of leases with rental value under £10,000.
2. **Disclosure**	N/a	Narrative Report section 1.14 – Going Concern	Further narrative has been added to the Going Concern disclosure to explain the rationale behind the assertion made that the Council is a going concern.
3. **Disclosure**	N/a	Note 4.28(a) – Depreciation	The disclosure of maximum and minimum useful economic lives was found to be incorrect as it did not match the Fixed Asset Register, in the following cases: • Dwellings & Other Buildings states rates of 10 – 50 Years however, based on the review of the FAR, the rate should be 5 - 50 years • Infrastructure Assets states rates of 40-50 years, however based on a review of the FAR, the rate should be 40 - 80 years • Intangible assets states rates of 3 - 5 years, however based on a review of the FAR, the rate should be 5 years.

Audit Adjustments

Misclassification 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
4. Disclosure	N/a	Note 4.20 - Officers' Remuneration	In the disclosure of Remuneration Bandings for senior employees whose salary is over £50,000, it was identified that: • In the band between £125,000 - £129,999 the table stated that there is one employee. However, audit procedures identified that this should have no employees disclose and there should be one employee in the banding £120,000 - £124,999.
5. Disclosure	Numerous	Note 4.21 – External Audit Costs	• Audit Fees payable with regard to external audit services were initially disclosed as £53,000, this was including a rebate from Public Sector Audit Appointments (PSAA) Ltd. External audit services fees are now correctly stated as £65,000 for 2017/18, with the PSAA rebate disclosed as a footnote. • Fees payable to Grant Thornton for the certification of grant claims was initially disclosed as £20,000 which included an adjustment for 2016/17. Grant claim fees have been amended to £17,000 which is the indicative fee for 2017/18.
6. Disclosure	N/a	Note 4.14 – Segmental Income	This note to the Statement of Accounts was a replica of the information included in the Comprehensive Income and Expenditure Statement, therefore this note has been removed.
7. Disclosure	4,313	Note 4.49 – Cash Flow Statement – Investing and Financing Activities	Financing Activities are a material balance of £4.313 million, and therefore a more detailed breakdown of the balance has been included in the note.
8. Disclosure	N/a	Note 4 – Accounting Policies	A number of Accounting Policies which related to immaterial balances have been removed from the Statement of Accounts.
9. Disclosure	N/a	Note 4.34 – Financial Instruments	An amendment has been identified to include a disclosure on the credit quality of the financial institutions in which the Council holds a short-term investment with as at 31 March 2018.

Fees

We confirm below our final fees charged for the audit and audit related services. No non-audit services have been provided to the Council during 2017/18.

Audit Fees

	Proposed fee	Final fee
Council Audit	£53,290	£53,290
Grant Certification	£16,852	TBC
Total audit fees (excluding VAT)	**£70,142**	**TBC**

Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of Carlisle City Council

Report on the Audit of the Financial Statements

Opinion
We have audited the financial statements of Carlisle City Council (the 'Authority') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:
• give a true and fair view of the financial position of the Authority as at 31 March 2018 and of its expenditure and income for the year then ended;
• have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
• have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Who we are reporting to
This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
• the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
• the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 1 to 116, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice
Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice
In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
Under the Code of Audit Practice we are required to report to you if:
• we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 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 Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
• we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 19, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. 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 2017/18, which give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the Authority.

The Audit Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.
Report on other legal and regulatory requirements - Conclusion on the Authority's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority
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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources
We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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 criterion 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 2018.

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 be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate
We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[Signature]

Gareth Kelly
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
110 Queen Street
Glasgow
G1 3BX
Date to be provided

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