



The Annual Audit Letter for Carlisle City Council

Year ended 31 March 2017

September 2017

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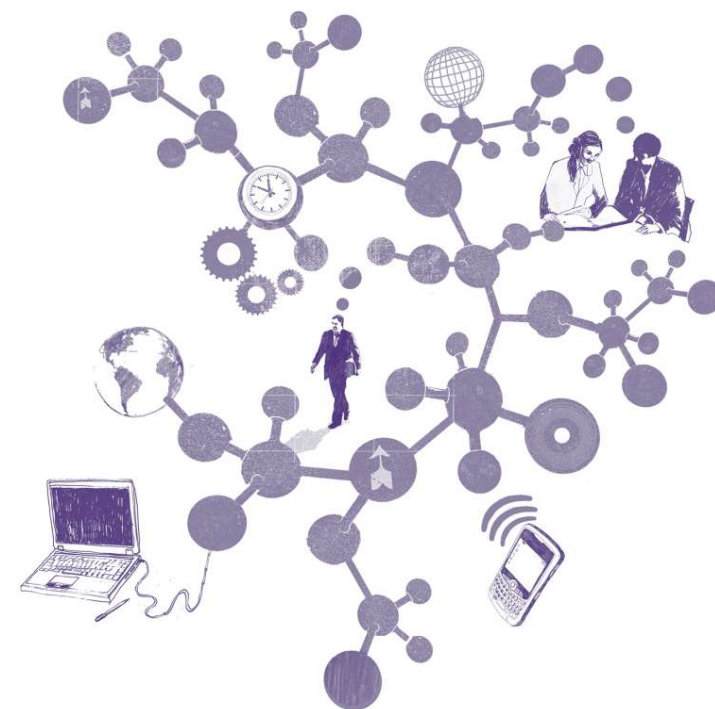
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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Carlisle City Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues 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 (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee, as those charged with governance, in our Audit Findings Report on 31 July 2017.

Our 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's financial statements as outlined in section two; and
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, known as the value for money conclusion, as outlined in section three.

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 31 July 2017. Note this is a full two months ahead of the statutory deadline of 30 September 2017.

Value for money conclusion

We were satisfied that, the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 31 July 2017.

Certificate

We certified that, we had completed the audit of the accounts of Carlisle City Council in accordance with the requirements of the Code on 31 July 2017.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by the statutory deadline of 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff. In particular the Council and its finance team has demonstrated the ability to produce its financial statements early on 31 May 2017.

Grant Thornton UK LLP
September 2017

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 our audit of the Council's accounts to be £1.141 million, which is 1.75% of the Council's revenue expenditure – cost of services. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for senior officer remuneration, exit packages and related party transactions.

We set a lower threshold of £57,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 Council's business and is risk based.

We identified key risks and set out overleaf. In Table 1 is the work we performed in response to those significance estimation related risks and the results of this work.

Audit of the accounts

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

Table 1: Financial statements related risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of property, plant and equipment (PPE) and investment properties</p> <p>Our work addressed the risk that the Council's property, plant and equipment and investment property portfolio valuation is not materially misstated.</p> <p>The Council revalues its assets annually. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of any management experts used; • for any valuation undertaken: <ul style="list-style-type: none"> - reviewed the instructions issued to valuation experts and the scope of their work; - discussed with the Valuer the basis on which the valuation is carried out and challenged the key assumptions; - reviewed and challenged the information used by the Valuer to ensure it is robust and consistent with our understanding; - undertook testing of revaluations made during the year to ensure they are input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that the carrying value of these are not materially different to their current value. 	<p>Our audit work did not identify any issues in respect of the valuation of PPE and investment properties.</p>
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> <p>In response to the move to earlier close-down, there is a greater degree of estimation in the information provided to the Actuary.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed the controls put in place by management to ensure that the pension fund liability is not materially misstated and walkthrough tested these controls; • reviewed the competence, expertise and objectivity of the Actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation is carried out; • undertook procedures to confirm the reasonableness of the actuarial assumptions made; and • reviewed the consistency of the pension fund asset and liability and disclosures in the notes to the financial statements with the actuarial report from your Actuary. 	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 31 July 2017, two months in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 31 July 2017.

One adjustment was identified to primary statements, and was amended by management. The net services expenditure was understated by £0.579 million and financing and investment expenditure was overstated by £0.579 million in the comprehensive income and expenditure statement (CIES). This did not impact upon the net financial position of the Council as the error related to a misclassification only in the CIES.

A number of other adjustments identified were amended by management, but these related to disclosure notes only, and do not impact upon the primary statements. Key disclosure note adjustments related to:

- note 4.32 for PPE was incorrect due to a formula calculation error of £1.262 million in the breakdown of the note, but this did not affect the overall total;
- note 4.38a for financial liabilities was overstated by £0.81 million, as an item relating to a housing benefit creditor is not classified as a financial instrument;
- note 4.38e for the carrying value of financial liabilities was overstated by £0.41 million, due to an incorrect interest rate being used in the valuation of the long term borrowing; and
- note 4.45 for leases was understated by £1.746 million due to incorrect inception values used in the calculations of some lease minimum payments.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in advance of the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. Amendments were made to the Annual Governance Statement to improve the links to the principles in the new CIPFA/SOLACE Delivering Good Governance guidance published in April 2016.

Other statutory duties

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not use our other statutory duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 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 key risks where we concentrated our work.

The key risk we identified and the work we performed are set out in Table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council's put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, for the year ending 31 March 2017.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Significant service transformation projects and the Medium Term Financial Plan (MTFP)</p> <p>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.</p>	<p>We reviewed the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Executive and Full Council.</p> <p>This links to the sustainable resource deployment criteria with the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities.</p> <p>In addition, the Council's arrangements for using appropriate cost and performance information to support decision making. This links to the informed decision making criteria.</p>	<p>The Council continues to face a challenging environment in the short to medium-term. The MTFP approved by Council in September 2016 demonstrated that appropriate steps were being taken to ensure a balanced budget position was maintained despite reduced government funding. A Saving 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 2017/18 to 2021/22 identified savings of £2.274 million. In addition, a savings requirement for 2016/17 of £1.201 million for 2016/17 was achieved, giving total savings of £3.475 million. The Council has a strong history of achieving savings targets.</p> <p>The Council is faced with the continuing challenge of finding further savings which will become increasingly difficult to achieve. It will be essential therefore to ensure that its savings plans continue to be clearly communicated, link to specific policy decisions, service reviews and on-going rationalisation of the workforce. Budget monitoring and reporting to Members is quarterly including anticipated outturn, and includes updates to the Members on the progress of savings.</p> <p>During 2016/17 as part of the 2017/18 budget compilation process, a detailed base budget review included an analysis of core budgets. This provided an additional level of challenge and rigour within the budget setting process.</p> <p>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. The Council has taken this approach to allow it to have the flexibility and resilience in order to address the variable nature of future funding. The Council has good planning assumptions built into the annual and five year budget processes. The Council is responsive to changes required as the strategic planning process considers sensitivity analysis and scenario planning.</p> <p>Based on the review of the arrangements in place during 2016/17 for the compilation of the MTFP including identified savings, we concluded that the overall risk was sufficiently mitigated and that the Council has proper arrangements in this area.</p>

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit and we confirm that no other services were performed.

Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit	53,290	53,290	53,290
Housing Benefit Grant Certification	14,093	14,093	16,852
Total fees (excluding VAT)	67,383	67,383	70,142

The proposed fees for the year are in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of PSAA.

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

Reports issued (presented to the Audit Committee)

Report	Date issued
Audit Plan	16 April 2017
Audit Findings Report	31 July 2017
Annual Audit Letter	27 September 2017



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