Item
A.1

The Draft Audit Findings for Carlisle City Council

Year ended 31 March 2022

October 2022

Contents

Your key Grant Thornton team members are:

Gareth Kelly
Key Audit Partner
E: Gareth.Kelly@uk.gt.com

Georgina Philp
Engagement Manager

Hamza Mulla
In-charge Auditor

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings 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. Its contents will be discussed with management and the Audit Committee.

Gareth Kelly

Name : Gareth Kelly

For Grant Thornton UK LLP

Date : TBC

1. Headlines

This table summarises the key findings and other matters 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 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements, including the 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.

Our audit work was completed on site and remotely during July-October 2022. Our financial statements audit findings are summarised on pages 7 to 24. We have identified 6 adjustments to the financial statements that have resulted in a £0.724m adjustment to the Council's Comprehensive Income and Expenditure Statement, with a £0.724m increase to the surplus on provision of services. 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 the recommendations from the previous year's audit are detailed in Appendix B.

Our work is not yet fully complete. At the time of writing there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters:

- our work on the collection fund;
- testing of land, buildings and investment property valuations;
- testing of the net pension liability;
- our work on infrastructure assets and nil net book value related assets;
- testing of exit packages;
- our work on assets under construction;
- receipt of management representation letter - see appendix F; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of the organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance.	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified a risk of significant weakness at this stage.
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 • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in December 2022.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 will be discussed with management and the Audit Committee.

As your auditor we are responsible for performing the audit in accordance with International Standards on Auditing (UK) and the Code - 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;
- 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 following the Audit Committee meeting on 10 November 2022, as detailed in Appendix E. These outstanding items include:

- our work on the collection fund;
- testing of land, buildings and investment property valuations;
- testing of the net pension liability;
- our work on infrastructure assets;
- testing of exit packages;
- our work on assets under construction;
- receipt of management representation letter - see appendix F; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

2. Financial Statements

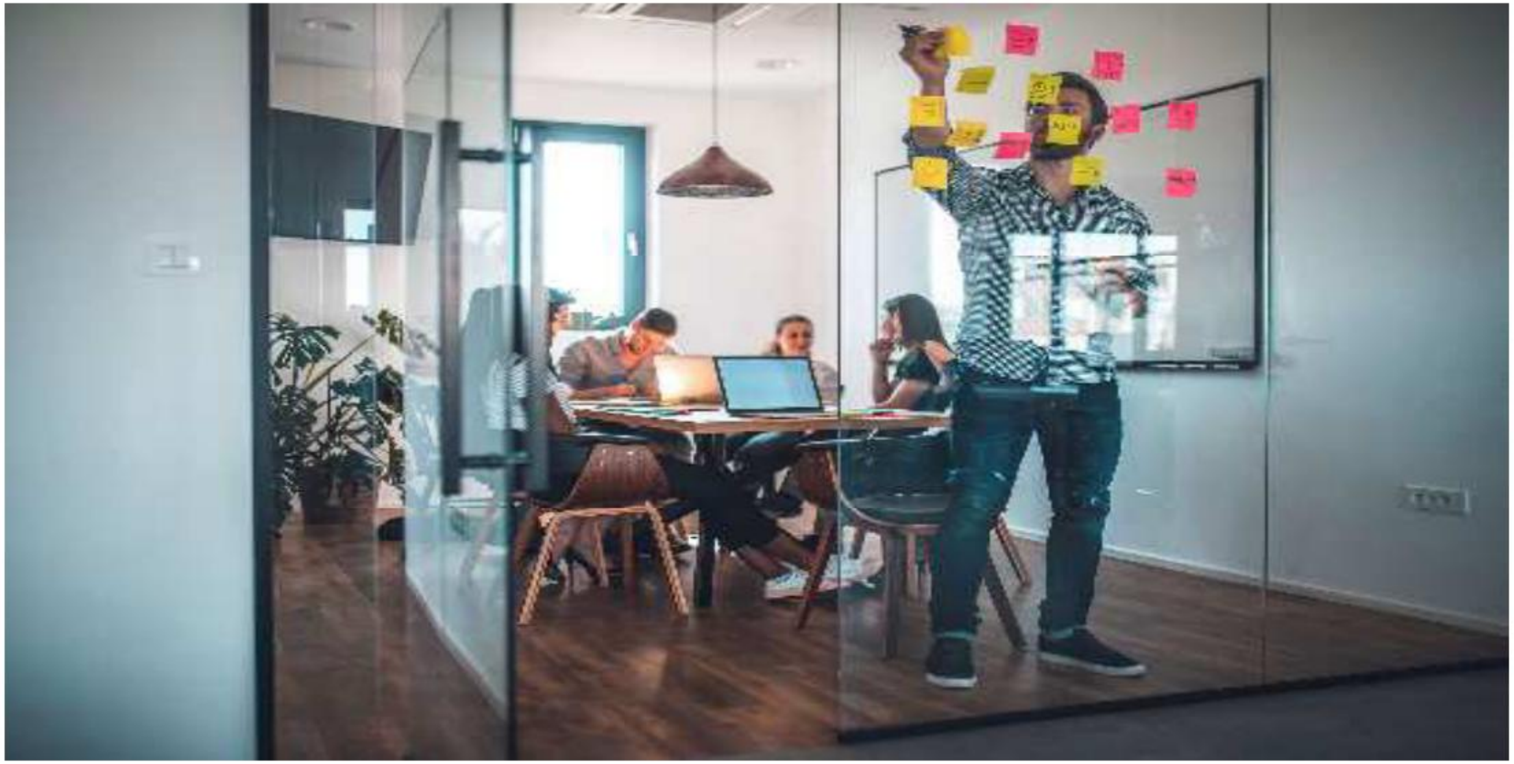
Our approach to materiality

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.

We have revised the performance materiality due to the actual gross expenditure changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table our determination of materiality for Carlisle City Council.

	Planning (£m)	Revised (£m)	Qualitative factors considered
Materiality for the financial statements	1.224	1.097	1.9% of 2021/22 draft gross expenditure for the Council.
Performance materiality	0.796	0.713	65% of materiality for the financial statements.
Trivial matters	0.061	0.055	5% of materiality for the financial statements.
Materiality for senior officer remuneration disclosures	0.10	0.010	Due to heightened reader interest in this sensitive area.



2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending in delivering services and this could potentially place management under pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the normal course of business as a significant risk for the Council, which was one of the most significant assessed risks for the Council.	In response to this risk we have: • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined the criteria for selecting high risk unusual journals; • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work identified that the Corporate Director of Finance and Resources has access rights to post journals to the general ledger. We reported this finding within our Audit Progress and Sector Update Report to Audit Committee in September 2022. Our work has confirmed that she has not posted any journals during 2021/22. Whilst no journals were posted in year, this represents a weakness in the control environment which creates a heightened risk of management override of controls. We have raised an associated recommendation in respect of this as outlined on page 20. Our work has not identified any other matters in relation to this risk.
Fraud in revenue and expenditure recognition (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. In addition, Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). These presumptions can be rebutted if the auditor concludes that there is no risk of material due to fraud relating to revenue and expenditure recognition.	We have considered the risk factors set out in ISA (UK) 240 and Public Audit Forum Practice Note 10 and the nature of the revenue and expenditure streams at the Council. We have determined the risk of fraud arising from improper recognition can be rebutted due to: • there is little incentive to manipulate revenue or expenditure recognition; • opportunities to manipulate revenue and expenditure recognition are limited; and • 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 these to be significant risks for Carlisle City Council and have rebutted these risks.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of land and buildings and investment property The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 requires the revaluation of land and buildings should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Investment Property carried at fair value should be revalued at each year end. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to the changes in key assumptions. We therefore identified the valuation of land, buildings and investment property as a significant risk, which is one of the most significant assessed risks of material misstatement.	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • written to the valuer to confirm the basis on which the valuations were carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested a sample of valuations at 31 March 2022 to understand the information and assumptions used in arriving at any revised valuations; • tested revaluations made during the year to see if they had been 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 has satisfied themselves that these are not materially different to current value at year-end. The Council engaged Montagu Evans to complete a full valuation of its land, buildings and investment properties as at 31 March 2022. A full valuation is undertaken on an annual basis. Our audit work identified that the valuations of two investment properties, the Lanes and Market Hall, were calculated using 2020/21 income figures. At the date of valuation, the final income figures for these investment properties were not available, although they did become available during the audit. The impact of this revised valuation is to increase their valuation by £1.458m. This adjustment has increased investment properties reported in note 4.29 and the Balance Sheet by £1.458m. The valuation of the Council's investment property, Land at Morton, has been updated due to revised land area. A proportion of land had been sold, which was not reflected in the original valuation. The impact of this revised valuation was to decrease the value of this asset by £0.075m. This adjustment has decreased investment properties reported in note 4.29 and the Balance Sheet by £0.075m. Our audit work also identified that the Council's investment property, Old Gaol Site, was overstated by £0.650m due to the omission of a demolition that was undertaken before 31 March 2022. The result of this error is an £0.650m overstatement of investment properties reported in note 4.29 and the Balance Sheet. The Council's Castle Street investment property's valuation has been revised, resulting in a £0.067m valuation decrease. The impact of this adjustment has decreased investment properties reported in note 4.29 and the Balance Sheet by £0.067m. These adjustments have also impacted on the Comprehensive Income and Expenditure Statement (CIES), as financing and investment net income (note 4.9) has increased by £0.666m. The revised valuations for these assets have been amended for in the final financial statements. Please see Appendix C for details of these amendments. We have no other matters to raise but our work in this area is on-going.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£41.753m in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	In response to this risk we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtained assurances from the auditor of the Cumbria Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The valuation in the pension fund financial statements for nine investment managers were understated by £12.648m. For the impacted investment managers, an estimate had been used for the 31 March 2022 position, using known cash movements, as the actual 31 March 2022 valuation was not available prior to submission of the draft accounts for audit. The pension fund audit team subsequently independently obtained the valuations from the fund managers, which identified the £12.648m difference. This has led to an understatement of the Council's share of the pension funds net assets. The pension fund auditor also identified an error in the investment return information submitted to the actuary, which partially offset this understatement. The net impact on the Council's pension liability would be £0.373m overstated. The Council has not adjusted for this difference on the grounds of materiality. Refer to Appendix C for this unadjusted misstatement. Pages 14-15 provides a detailed assessment of the estimation process for the valuation of the pension fund net liability. At the time of writing this report, our audit work is on-going however has not currently identified any further issues in respect of valuation of the pension fund liability. We have recently received a response to our assurance letter from the Pension Fund auditor and are finalising our work in this area.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation • Following consultation and agreement by FRAB, the Code will provide for authorities to opt to apply IFRS 16 in advance of the revised implementation date of 1 April 2024. If management elect to implement IFRS 16 from April 2022 (early adoption) then in 2021/22 accounts as a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases, along with the estimated impact of IFRS 16 on the accounts.	Management has closely followed the consultation and elected not to early adopt IFRS 16 from April 2022 and therefore no disclosures are made in the 2021/22 accounts.	As management decided not to early adopt IFRS 16, we do not expect any associated disclosures in the 2021/22 accounts. We consider this to be appropriate. We will continue to hold discussions with management regarding leases in line with the revised implementation date of 1 April 2024.
Recognition and Presentation of Grant Income • The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.	We have reviewed the Council's management's assessment of agent / principal relationships on grants received. We have performed detailed testing on a sample of Grant income to agree classification and subsequent recognition in the financial statements, if accounted for on a principal or agent basis.	We have not identified any issues regarding the recognition and presentation of grant income.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
Valuation of Infrastructure Assets • The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. Carlisle City Council has material infrastructure assets, at a gross and net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.	In response to this risk we have: • made inquiries of management to understand their current approach to capitalisation, derecognition and depreciation of infrastructure assets and how it complies with the requirements of the Code; • assessed management's responses; • reviewed the Council's fixed asset register to assess whether it is applying its processes for recognition and derecognition in practice as described; and • for a sample of assets or additions to infrastructure, enquire as to the basis of the asset life and conclude on whether this is reasonable and correctly factored into depreciation calculations documenting the work carried out.	The Department for Levelling Up, Housing and Communities (DLUHC) are currently working on a Statutory Instrument, with a plan to this being laid in Parliament on 30 November 2022 and coming into force on 25 December 2022. The Statutory Instrument is expected to resolve the majority of the ongoing audit challenges related to Infrastructure Assets. It is likely that the Statutory Instrument will remove the requirement to report the gross cost and accumulated depreciation for infrastructure assets. These disclosures are reported within in note 4.27 Property, plant and equipment of the draft financial statements. A consultation on this Statutory Instrument is in progress and we are awaiting to hear the outcome. Our work in this area is on-going.
Nil net book value assets • The Council's draft asset register included 148 property, plant and equipment assets with a nil net book value. These assets have a gross cost of £4.428m and are fully depreciated in the asset register.	Management is aware of this issue and undertake an annual review of the fixed asset register to reconcile the assets to those listed on the vehicle and plant register held within the Transport section. Management has confirmed the existence of 44 of the 148 assets with a nil net book value, with a total gross cost of £1.358m. A more detailed initial review commenced during 2021/22 to review all assets classified as Vehicle, Plant and Equipment within the fixed asset register to identify assets that are no longer in ownership, with appropriate removal from the fixed asset register. This review will continue into 2022/23 to confirm the remaining assets are still in use by the Council.	There are two risks in relation to this issue: • if these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated; • if these assets are operational, there is a risk that the Council is not assigning appropriate asset lives to its property plant and equipment and intangible assets. The impact of these risks is that the gross book value and accumulated depreciation/amortisation disclosed within note 4.27 Property, plant and equipment is overstated. We recommend that management undertake an annual review of all its assets with a nil net book value to review if these assets remain operational and that asset lives assigned are appropriate. See Appendix A for the recommendation. Our work in this area is on-going.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IT Control deficiencies • Our assessment of the relevant Information Technology (IT) systems and controls operating over them, which was performed as part of obtaining an understanding of the information systems relevant to financial reporting.	In accordance with ISA (UK) 315, we obtained an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtained an understanding of the controls operating over relevant Information Technology (IT) systems i.e. IT general controls (ITGCs). Our audit work involved completing an assessment of the design of ITGCs related to security management, technology acquisition, development and maintenance, and technology infrastructure.	Our audit work identified the two following issues: • The Corporate Director of Finance and Resources has access rights to post journals to the general ledger. We reported this finding within our Audit Progress and Sector Update Report to Audit Committee in September 2022. Our work has confirmed that she have not posted any journals during 2021/22. Whilst no journals were posted in year, this represents a weakness in the control environment which creates a heighten risk of management override of controls. • The Council's Internal Audit Report 2021/22 and Annual Governance Statement 2021/22 highlights concerns in relation the management of cyber-risk. There a number of outstanding internal audit recommendations which have not been implemented. This is due to resource shortages, vacancies within the service and increase pressure on the service as a result of Local Government Reorganisation. We have raised recommendations in respect of these areas as outlined in Appendix A. We do not place reliance on the operation of application controls / IT dependent. Our work has not identified any other issues in this respect.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £54.242m Investment Property Valuation - £97.773m	Other land and buildings comprises £44.397m of specialised assets which require valuation on a depreciated replacement cost (DRC) at year-end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£10.099m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year-end. The Council has engaged Montagu Evans to complete a full the valuation of land and buildings as at 31 March 2022. All full revaluation of assets is completed on an annual basis, leaving no risk of material misstatement in respect of non-valued assets. Management has considered alternative requirements for DRC assets as these form a significant proportion of the asset base. Management and the valuer have determined that the asset valuation will be produced on a like-for-like basis and alternative footprints are not required. The total year end valuation of land and buildings was £54.242m, a net increase of £3.968m from 2020/21 (£50.276m). Montagu Evans are also engaged to revalue all investment properties in line with the IRFS Code. Investment properties of £88.359m include the Lanes Shopping Centre, Kingstown Industrial Estate and Rosehill Industrial Estate. These assets have been valued on an income method at year-end taking into account current rental and other factors such as desirability of the site. The remainder of the investment properties (£9.414m) have been valued on a market value with a higher level of valuer estimation required as there are fewer comparable transactions. The total year-end valuation of investment properties was £97.773m, a net increase of £2.645m from 2020/21 (£95.128m).	The Council's accounting policy on valuation of land and buildings is included in 4.0.16 accounting policy and property investment 4.0.13 accounting policy to the financial statements. In response to these estimates: • we assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate; • we reviewed the underlying information and sensitivities used to determine the estimate are complete and accurate; • we confirmed the valuer has prepared their valuations in accordance with RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates; and • we reviewed the level of disclosure in the financial statements and consider it to be appropriate. Our audit work identified an update to certain investment property valuations was required resulting in an increase of £0.650m to investment property reported in the Balance Sheet. See page 8 for further details. The amendment is disclosed within Appendix C. We considered all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of these accounting estimates. We have not identified any indication of management bias. Our audit work is on-going in this area.	Based on our work to date, we consider management's process and key assumptions are neither optimistic or cautious. However, our work in this area is not yet complete. Light purple

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £41.753m	The Council's net pension liability at 31 March 2022 is £41.753m (PY £52.532m) comprising the Cumbria Local Government Pension Scheme. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £14.223m net actuarial gain in 2021/22. Continued on following page.	In understanding how management has calculated the estimate of the net pension liability we have: • undertaken an Assessment of management's expert; • assessed the approach taken by the actuary and undertaken work to confirm reasonableness of approach; • used PwC as an auditors expert to assess actuary and assumptions made by actuary – use table to compare with Actuary assumptions:	Based on our work to date, we consider management's process and key assumptions are neither optimistic or cautious. However, our work in this area is not yet complete. Light purple

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.8%	2.70-2.80%	●
Pension increase rate	3.5%	3.00-3.50%	●
Salary growth	4.9%	4.25-5.00%	●
Life expectancy – Males currently aged 45 / 65 - Future pensioner age 65 in 20 years' time - Current pension age 65	24.1 years 22.6 years	20.7-23.3 years 20.7-23.3 years	●
Life expectancy – Females currently aged 45 / 65 - Future pensioner age 65 in 20 years' time - Current pension age 65	27.1 years 25.3 years	25.7-27.5 years 23.8-25.5 years	●

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £41.753m	Continued from previous page.	• assessed completeness and accuracy of the underlying information used to determine the estimate; • reviewed the impact of any changes to valuation method; • assessed the reasonableness of the Council's share of LPS pension assets; • assessed the reasonableness of increase/decrease in estimate; and • adequacy of disclosure of estimate in the financial statements. The valuation in the pension fund financial statements for 9 investment managers were understated by £12.648m. For the impacted investment managers, an estimate had been used for the 31 March 2022 position, using known cash movements, as the actual 31 March 2022 valuation was not available prior to submission of the draft accounts for audit. The pension fund audit team subsequently independently obtained the valuations from the fund managers, which identified the difference. This has led to an understatement of the Council's share of the pension funds net assets. The pension fund auditor also identified an error in the investment return information submitted to the actuary, which partially offset this understatement. The net impact on the Council's pension liability would be £0.373m overstated. The Council has not adjusted for this difference on the grounds of materiality, as outlined in Appendix C for this unadjusted misstatement. We have not identified any further issues in respect of this significant estimate. Note that at the time of writing this report we are still completing our work following a response to our assurance letter from the Pension Fund auditor.	Based on our work to date, we consider management's process and key assumptions are neither optimistic or cautious. However, our work in this area is not yet complete. Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation	Over the last two years due to the Covid-19 pandemic, the Council has received Covid related grant funding. The Council received £14.049m in 2021/22 to distribute to businesses and individuals, of which £12.931m accounted for on an agency basis and £1.118m on a principal basis. This has compromised of mix of discretionary and non-discretionary schemes. Management has take into account three main considerations in accounting for grants: • whether the Council is acting as the principal or agent and particularly whether it controls the goods or services before they transfer to the service recipient. Management's assessment considers all relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements. • whether there are conditions outstanding (as distinct from restrictions) that would require the grant to be recognised as receipt in advance, otherwise grant should be recognised as income. • whether the grant is a specific or non-specific grant. General un-ringfenced grants are disclosed on the face of the CIES, whereas ringfenced grants are required to be credited to service revenue accounts.	We have tested a sample of grants received to confirm the following: • whether the Council is acting as the principal or agent which would determine whether the Council recognises the grant at all; • assessed the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income • assessed the impact for grants received, whether the grant is specific or non-specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES; and • reviewed the adequacy of disclosure of judgement in the financial statements meeting the requirements of IAS 1:125. Our audit work has not identified any issues.	We consider management's process and key assumptions are neither optimistic or cautious. Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Depreciation and useful economic lives of assets	Items of property, plant and equipment are depreciated over their remaining useful lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated. Management's accounting policy is that property depreciation should be applied with a straight-line allocation over the life of the property as estimated by the valuer.	In response to this estimate we have: • reviewed the accounting policy; • recalculated the depreciation charge based on the useful economic lives as provided by the valuer as well as an overall recalculation of depreciation; • assessed the reasonableness of the useful economic life for a sample of assets; and • assessed the appropriateness of the policy in line with the financial reporting framework. We have not identified any issues in relation to this estimate.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious. Light purple
Year end provisions and accruals	Provisions: The Council's made a number of provisions at year end totalling £1.298m (£1.964m in 2021/22). £0.767m is for business rates appeals. As this value is immaterial it is no longer considered a key estimate like we detailed in our Audit plan. The Council is responsible for repaying a proportion of successful rateable value appeals. The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision has decreased by £0.575m in 2021/22. Accruals: Management do not have any individually material accruals. Management adopt the accrual basis of accounting, accruals are based on expenditure incurred that has not yet been paid or income due that has not yet been received. Accruals are based on principally known values, based on prior year figures or through the latest information available. Management has a de-minimus level, no accruals of a value less than £500 individually are included.	We have included accruals within our creditors sample testing, for each tested accrual we have: • reviewed the accounting policy; • considered the appropriateness of the underlying information used to determine the estimate; • compared the estimate to actual income/expenditure received or paid after the preparation of the draft financial statements; • considered the impact of any changes to valuation method; • where possible, compared the accrual to prior year values and methodology; and • considered the adequacy of disclosure of estimate in the financial statements. We have not identified any issues in relation to this estimate.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious. Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. In 2017/18 the Council completed a review of its MRP. This review identified an over provision of £1.1m in relation to voluntary MRP and MRP charged on AUC. The Council adjusted the charges for the financial years 2017/18 to 2021/22. The nil MRP charge for 2021/22 reflects the net position after the overpayment deduction. In 2021/22 the MRP should have been £0.281m (MRP 3%) and has been reduced to nil. The MRP charge for 2021/22 was nil, with no change from 2020/21.	In response to this estimate we have assessed: • whether the MRP has been calculated in line with the statutory guidance; • whether the Council's policy on MRP complies with statutory guidance; • assess whether any changes to the Council's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council; and • the reasonableness of the increase/decrease in MRP charge. There is an overarching requirement for authorities to determine a prudent provision, rather than follow a particular basis of calculation. If MRP is too low, the burden of capital assets will fall on future taxpayers. In our Audit Findings Report 2020/21, we noted that the Council should keep its MRP policy under review. The provision should continue to be prudent and sufficient to finance capital expenditure that has not previously been financed through application of capital receipts, capital grants or direct revenue charges. See Appendix A for recommendation raised.	We consider management's process and key assumptions are neither optimistic or cautious. Management should keep this under review going forward. Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Credit loss and impairment allowance	The Council recognises expected credit losses on all of its financial assets held at amortised cost or either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Council. Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses. Management has an allowance for credit losses of £1.863m (£1.900m in 2020/21), which is made up of the allowances for Housing Benefit, Council Tax, NDR and sundry debtors.	In response to this estimate we have: • reviewed the accounting policy; • considered any changes in methodology to the prior year; • reviewed the approach against the CIPFA 2021/22 code; • considered the appropriateness of the underlying information used to determine the estimate; and • agreed the approach and to management working papers. We have not identified any issues in relation to this estimate.	We consider management's process and key assumptions are neither optimistic or cautious. Light purple

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
Significant deficiency	Our audit work identified that the Corporate Director of Finance and Resources has access rights to post journals to the general ledger. We reported this finding within our Audit Progress and Sector Update Report to Audit Committee in September 2022. Our work has confirmed that they have not posted any journals during 2021/22. Whilst no journals were posted last year, this represents a weakness in the control environment which creates a heightened risk of management override of controls. We understand management have taken prompt action to revoke these access rights.	Revoke the Corporate Director of Finance and Resources' access rights to post journals to the general ledger. **Management response** Access rights have been revoked and system access updated to ensure no risk of control breach.
Deficiency	The Council's Internal Audit Report 2021/22 and draft Annual Governance Statement 2021/22 highlights concerns in relation the management of cyber-risk. There a number of outstanding internal audit recommendations which have not been implemented. This is due to resource shortages, vacancies within the service and increase pressure on the service as a result of LGR.	Ensure outstanding ICT internal audit recommendations implemented. **Management response** These are closely monitored by Internal Audit and regularly updated to the Audit Committee and SMT.

Assessment
- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

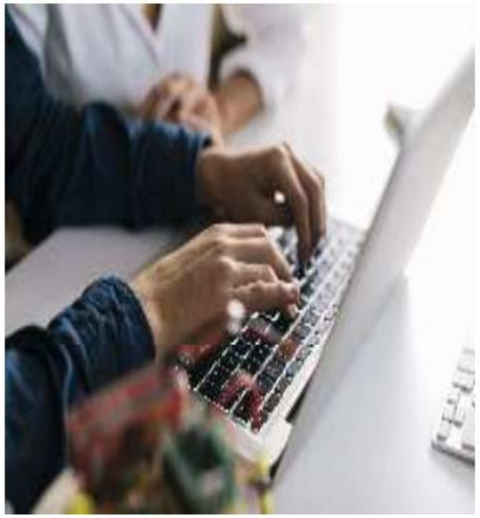
2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
Significant events or transactions that occurred during the year	Local Government Re-organisation (LGR) will take place in Cumbria on 1 April 2023. Cumbria County Council, and the 6 Cumbrian district councils will be replaced by two unitary councils. These two unitary councils will take on responsibility for the services currently delivered by Cumbria County Council and the six district councils. Carlisle City Council will merge with Allerdale Borough Council, Copeland Borough Council and approximately half of a disaggregated Cumbria County Council to form a new unitary authority to be known as Cumberland Council. Management has included appropriate disclosures within Note 1.13 Major Influences on the Authority to reflect LGR. For all other matters discussed with management refer to Appendix A Recommendations and Appendix C Audit adjustments.
Business conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement	None to report.
Concerns about management's consultations with other accountants on accounting or auditing matters	None to report.
Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	None to report.
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	None to report.
Other matters that are significant to the oversight of the financial reporting process.	None to report.

2. Financial Statements - 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
Matters in relation to fraud	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.
Matters in relation to related parties	We are not aware of any related parties or related party transactions, which have not been disclosed.
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.
Written representations	A letter of representation has been requested from the Council, which is included in Appendix F.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the bank and investment counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements with minor changes outlined in Appendix A.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates; • the Council's financial reporting framework; • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment; and • the Local Government Reorganisation in Cumbria, proposed for April 2023. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Some minor amendments have been made and adequately rectified by management. We plan to issue an unmodified opinion in this respect as outlined in Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
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.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2021/22 audit of Carlisle City Council in the audit report, as detailed in Appendix E, due to our VFM work which is not yet complete.

3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any risks of significant weakness at this stage.

4. 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, senior managers and managers). In this context, we disclose the following to you:

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 between the Council and Grant Thornton UK LLP, and the sums involved, are clearly insignificant to either party.

We also disclose that an employee of Grant Thornton has a family member who works within the Revenue and Benefits team within the Council. We have considered the real and perceived risk of our independence and this has been mitigated by the following safeguard. This Grant Thornton employee has no involvement with this audit.

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

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 service were identified:

Service	Fees £	Threats identified	Safeguards
CFO Insights Subscription	£5,000	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 £5,000 in comparison to the total fee for the audit of £69,232 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.

This service is consistent with the Council's policy on the allotment of non-audit work to your. This services has been approved by the Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

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 2021/22 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
Medium	**Minimum Revenue Provision** There is an overarching requirement for authorities to determine a prudent provision, rather than follow a particular basis of calculation. If MRP is too low, the burden of capital assets will fall on future taxpayers.	Review the Council's MRP policy to ensure the provision continues to be prudent and sufficient to finance capital expenditure that has not previously been financed through application of capital receipts, capital grants or direct revenue charges. **Management response** The Council reviews its MRP policy annually in line with the Codes of Practice and is included in the Treasury Management Strategy Statement approved by Council. This will be the responsibility of Cumberland Council from 01/04/23 and it will be up to that authority to set an appropriate MRP policy.
Medium	**Fully depreciated assets with nil net book values** The Council's draft asset register included 148 property plant and equipment assets with a nil net book value. These assets have a gross cost of £4.428m and are fully depreciated in the asset register. There are two risks in relation to this issue: • If these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated • If these assets are operational, there is a risk that the Council is not assigning appropriate asset lives to its property plant and equipment and intangible assets. The impact of these risks is that the gross book value and accumulated depreciation/amortisation disclosed within Note 14 Property, plant and equipment is overstated.	Undertake an annual review of all its assets with a nil net book value to review if these assets remain in operational and that asset lives are assigned are appropriate. **Management response** Work was undertaken in 2021/22 to review the assets held with a nil net book value and a number of assets were written out of the balance sheet where they were no longer operational.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of Carlisle City 2020/21 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	**Investment Property – data quality** A small number of valuations included in investment properties required amending to include the impact of up-to-date information. **Recommendation** Ensure the data sent to the valuer is complete and there is a quality assurance process in place for the Council once the valuations have been received.	**Action taken by management to address the issue** A quality review of the asset register held by both finance and property services was undertaken in 2021/22 to ensure information sent to valuer was correct and up to date. A quality review process of the information received back has also been undertaken. **Assessment** Our current year audit has identified investment properties' valuations requiring amendment to include the impact of up-to-date information. See Appendix C.
In progress	**Investment Property valuation – lease information** One lease in respect of Durranhill Industrial Estate was missed therefore investment properties were undervalued. **Recommendation** Ensure all leases are complete and provided to the Valuer in full for valuation purposes.	**Action taken by management to address the issue** A review process has been undertaken to ensure that the correct lease information has been provided to the valuers. **Assessment** Our work in this area is not yet complete.
In progress	**Heritage Assets** Heritage assets are valued using insurance valuation however the last valuation was carried out in 2014. **Recommendation** Ensure assets are valued in line with a five year programme.	**Action taken by management to address the issue** The valuation of the fine arts element of Tullie House collection was completed for insurance purposes in 2021/22 and the revised valuations will be reflected in 2021/22 accounts. This element made up over 80% of the overall value and comprised nearly of 5000 items. Further valuations of other elements of the collection are being undertaken in 2022/23. **Assessment** Management has taken appropriate action to address this issue. We note further valuations are due to be undertaken in 2022/23.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations

We identified the following issues in the VFM audit of Carlisle City Council in 2020/21, which were reported in our Audit Findings reports.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
In progress	Capital Projects The total costs on the Sands Centre Redevelopment continues to increase from the initial £14.2m to £27.2m. Any capital programme overruns should be closely monitored to ensure the Council does not breach its treasury management limits. Recommendation 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.	Detailed business case and option appraisal was undertaken for the Sands Centre project and is undertaken for all major capital projects. Costs are monitored closely though projects and detailed budget monitoring is reported to appropriate committees.
In progress	Run rate A review of the Council's 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. Recommendation Monitor the run rate on usable reserves to ensure general fund unearmarked reserves are maintained at a reasonable level.	Run rate of reserves was included in the 22/23 MTFP (the last for Carlisle CC) and risk based review of minimum levels of reserves are undertaken annually and continually monitored throughout the year.
In progress	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. Recommendation 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.	Detailed sensitivity analysis was included in the 2022/23 MTFP (the last for Carlisle CC) to include analysis of different scenarios and the impact it would have on financial sustainability.

Assessment

✓ Action completed

X Not yet addressed

C. 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 ending 31 March 2022.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
Investment property – Lanes and Market Hall During the audit the Council received the final income figures for the Lanes and Market Hall. The valuation was revisited and updated. The impact of this revised valuation is to increase their valuation by £1.458m. This adjustment has increased investment properties reported in note 4.29 and the Balance Sheet by £1.458m with a corresponding increase to financing and investment net income (note 4.9) reported in the CIES.	(1,458) Financing and investment net income	1,458 Investment properties	(1,458)
Investment property – Land at Morton The valuation of the land at Morton was revised. As a proportion of land was sold during 2021/22, which was not reflected in the original valuation. The impact of this revised valuation was to decrease the value of this asset by £0.075m. This adjustment has decreased investment properties reported in note 4.29 and the Balance Sheet by £0.075m with a corresponding decrease to financing and investment net income (note 4.9) reported in the CIES.	0,075 Financing and investment net income	(0,075) Investment properties	(0,075)
Investment property – Old Gaol Site Our work identified that the Council's investment property, Old Gaol Site, was overstated by £0.650m due to the omission of a demolition that was undertaken before the 31 March 2022. The result of this error is an £0.650m overstatement investment properties reported in note 4.29 and the Balance Sheet with a corresponding to financing and investment net income (note 4.9) reported in the CIES.	0,650 Financing and investment net income	(0,650) Investment properties	0,650
Investment property – Castle Street The Council's Castle Street investment property's valuation has been revised resulting in a £0.067m valuation decrease. The impact of this adjustment has decreased investment properties reported in note 4.29 and the Balance Sheet by £0.067m with a corresponding decrease to financing and investment net income (note 4.9) reported in the CIES.	0,067 Financing and investment net income	(0,067) Investment properties	0,067

C. Audit Adjustments

Impact of adjusted misstatements continued

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
Retained levy Note 4.17 Cumbria Business Rates Pool figures within the draft financial statements were based on estimate figures. During the audit the final 2021/22 figures have been received. The note has been updated to reflect the final figures. The Council's share of the retained levy has increased by £0.086m and this adjustment also impacts on CIES. The result of this adjustment was to increase taxation and non-specific grant income (note 4.10) reported in the CIES by £0.086m with a corresponding increase to short term debtors reported in the Balance Sheet.	(0,086) Taxation and non-specific grant Income	0,086 Short term debtors	(0,086)
External Audit Costs Fees payable to the external auditor disclosed in note 4.20 external audit costs has been updated in line with the audit plan. Please see pages 35 and 37 for further details. This adjustment has also increased gross expenditure reported in the CIES by £0.026m with a corresponding increase to short term creditors reported in the Balance Sheet.	0,026 Corporate management – gross expenditure	(0,026) Short term creditors	0,026
Other land and buildings Five valuations were revised for rounding adjustments. Other land and buildings reported in note 4.27 and the Balance Sheet has decreased by £0.002m with a corresponding increase to gross expenditure reported in the CIES.	0,002 Community services	0,002 Other land and buildings	0,002
Overall impact	£(724)	£724	£(724)

C. 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.

Misclassification and disclosure changes

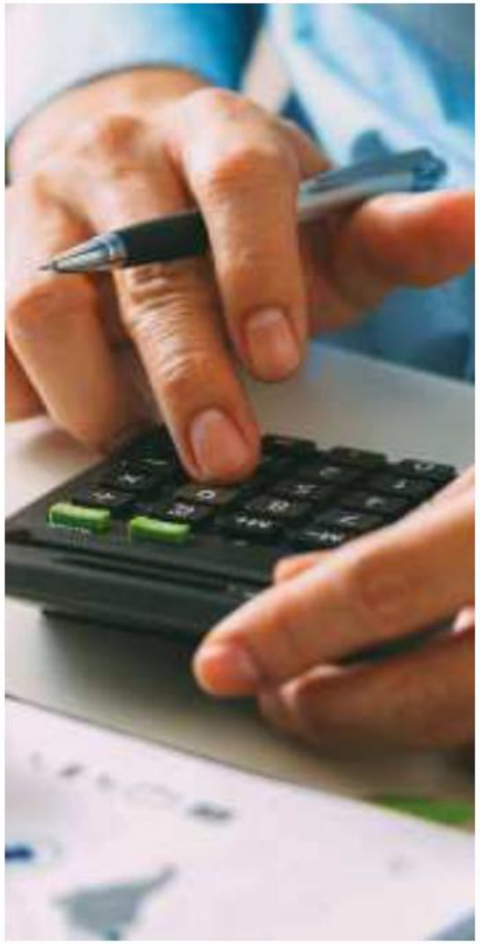
The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Adjusted?
Narrative report Some minor changes were made to the narrative report.	✓
Note 4. Critical Judgements in applying Accounting Policies Reference material uncertainty of debtors and creditors and Covid-19 valuation uncertainty removed.	✓
Note 4.20 External Audit Costs Fees payable to the external auditor disclosed in note 4.20 has been updated in line with the audit plan.	✓
Note 4.27(a) Useful lives of dwellings and other buildings updated from 10-50 years to 10-53 years.	✓
Note 4.31 2020/21 Statues, monuments and historic landmarks figures have been updated as these were omitted in error in the draft financial statements.	✓
Note 4.39e 2020/21 'Amounts accrued at the end of the current year' updated from £(0.243)m to £(0.288m).	✓
Narrative Report and Annual Governance Statement Minor amendments have been made to the Narrative Report and AGS. The AGS has been updated to include further detail regarding ICT services concerns.	✓
Note 4.17 Cumbria Business Rates Pool The figures disclosed in this note were based on estimate figures. During the audit the final 2021/22 figures have been received. The note has been updated to reflect the final figures.	✓

C. Audit Adjustments

Disclosure	Adjusted?
Notes to the accounts Minor formatting changes have been made within the notes to the accounts.	✓
Note 4.42(b) Basis for estimating assets and liabilities Narrative added to explain that since 31 March 2022, the assumptions used in the calculations have change significantly.	✓
Note 4.28 Bases of valuation Narrative added to confirm all the Council's assets subject to revaluation were revalued as at 31 March 2022.	✓
Events after the reporting period Note 4.44 Events after the balance sheet date was updated to disclose the impact of political and economic volatility since 31 March 2022, a non-adjusting event.	✓

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
IAS19 Net pension liability The valuation in the pension fund financial statements for nine investment managers were understated by £12.648 million. For the impacted investment managers, an estimate had been used for the 31 March 2022 position, using known cash movements, as the actual 31 March 2022 valuation was not available prior to submission of the draft accounts for audit. The pension fund audit team subsequently independently obtained the valuations from the fund managers, which identified the difference. This has led to an understatement of the Council's share of the pension funds net assets. The pension fund auditor also identified an error in the investment return information submitted to the actuary, which partially offset this understatement. The net impact on the Council's pension liability would be £0.373m overstated.	373 Remeasurements of the Net Defined Benefit Liability / (Asset)	(373) Pension Liability 373 Unusable reserves – pension reserve	373	Management consider this to be immaterial to the financial statements so has opted not to adjust.
Overall impact	£373	£nil	£373	

D. Fees

We confirm below our final fees charged for the audit and provision of non-audit services:

Audit fees	Proposed fee	Final fee
Council Audit	£69,232	TBC
Total audit fees (excluding VAT)	£69,232	TBC

Our final audit fee will be confirmed on completion of our VFM work.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - None	nil	nil
Other – CFO Insights Licence	£5,000	£5,000
Total non-audit fees (excluding VAT)	**£5,000**	**£5,000**

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial statements.

Total fees per the table £0.069m

- PSAA refund £(0.008)m
- National Fraud Initiative Exercise £0.003m

Total fees per financial statements £0.064m.

E. Audit opinion

Our audit opinion is included below. 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 on financial statements

We have audited the financial statements of Carlisle City Council (the 'Authority') for the year ended 31 March 2022, which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the accounts, 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 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Corporate Director of Finance and Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Corporate Director of Finance and Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's

E. Audit opinion

financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Corporate Director of Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Corporate Director of Finance and Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Corporate Director of Finance and Resources and Those Charged with Governance for the financial statements' section of this report.

Other information

The Corporate Director of Finance and Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 obtained in the audit 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 the 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 in April 2020 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 'delivering good governance in Local Government Framework 2016 Edition' 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 matters 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, 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.

E. Audit opinion

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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Corporate Director of Finance and Resources and Those Charged with Governance for the financial statements

As explained in the Statement of Responsibilities [set out on page 22], 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 Corporate Director of Finance and Resources. The Corporate Director of Finance and Resources 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Corporate Director of Finance and Resources 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 Corporate Director of Finance and Resources 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and

E. Audit opinion

- determined that the principal risks were in relation to:
  - unusual journals with specific risk characteristics and large value journals; and
  - significant accounting estimates and critical judgements made by management.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Corporate Director of Finance and Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on unusual journals with specific risk characteristics and on large value journals;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings, investment property and defined benefit pensions liability valuations; and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to land and buildings, investment property and defined benefit pensions liability valuations.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government sector
  - understanding of the legal and regulatory requirements specific to the Authority including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA/LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority’s operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework .

E. Audit opinion

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in December 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Carlisle City Council for the year ended 31 March 2022 in accordance with the requirements of the

E. Audit opinion

Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report '
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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.

Signature:

Gareth Kelly, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Glasgow

TBC

F. Management Letter of Representation

Grant Thornton UK LLP

110 Queens Street

Glasgow

G1 3BX

TBC

Dear Sirs

Carlisle City Council
Financial Statements for the year ended 31 March 2022

This representation letter is provided in connection with the audit of the financial statements of Carlisle City Council for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include land, buildings, investment properties, deprecation and net pension liability. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

F. Management Letter of Representation

vii. Except as disclosed in the financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as *they are immaterial to the results of the Council and its financial position at the year-end.* The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that:

a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

xv. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

xvi. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

xvii. The Council's draft asset register included property plant and equipment assets with a nil net book value and are fully depreciated in the asset register. We acknowledge that are two risks in relation to this issue:

a. If these assets are no longer operational, the gross cost and accumulated depreciation balance will be overstated;

b. If these assets are operational, there is a risk that the Council is not assigning appropriate asset lives to its property plant and equipment.

F. Management Letter of Representation

The impact of these risks is that the gross book value and accumulated depreciation/amortisation disclosed within Note 4.27 Property, plant and equipment is overstated. There is no impact on the primary financial statements, which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves, Balance Sheet, and the Cash Flow Statement.

Information Provided

xviii. We have provided you with:

- a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;
- b. additional information that you have requested from us for the purpose of your audit; and
- c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.

xix. We have communicated to you all deficiencies in internal control of which management is aware.

xx. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xxi. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud

xxii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

- a. management;
- b. employees who have significant roles in internal control; or
- c. others where the fraud could have a material effect on the financial statements.

xxiii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiv. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxvi. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvii. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxviii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 10 November 2022.

Yours faithfully

Name................................

Position.............................

Date..................................

Name................................

Position.............................

Date..................................

Signed on behalf of the Council

F. Management Letter of Representation

Appendix - Unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of the items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
IAS19 Net pension liability	373	(373)	373
The valuation in the pension fund financial statements for nine investment managers were understated by £12.648 million. For the impacted investment managers, an estimate had been used for the 31 March 2022 position, using known cash movements, as the actual 31 March 2022 valuation was not available prior to submission of the draft accounts for audit. The pension fund audit team subsequently independently obtained the valuations from the fund managers, which identified the difference. This has led to an understatement of the Council's share of the pension funds net assets. The pension fund auditor also identified an error in the investment return information submitted to the actuary, which partially offset this understatement. The net impact on the Council's pension liability would be £0.373m overstated.	Remeasurements of the Net Defined Benefit Liability / (Asset)	Pension Liability 373 Unusable reserves – pension reserve	
Overall impact	£373	£nil	£373

G. Audit letter in respect of delayed VFM work

Chair of Audit Committee
Carlisle City Council
Civic Centre
Rickergate
Carlisle
CA3 8QG
20 October 2022

Dear Councillor Bomford,

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest. Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 31 December 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Gareth Kelly

Director

Grant Thornton

grantthornton.co.uk