

**Audit Committee**

**Date:** Thursday, 10 November 2022

**Time:** 10:00

**Venue:** Flensburg Room

**Present:** Councillor Robert Betton, Councillor Pamela Birks, Councillor Jeffrey Bomford, Councillor Mrs Christine Finlayson, Councillor Neville Lishman, Councillor Mrs Linda Mitchell Councillor Dr Les Tickner (for Councillor Lucy Patrick)

**Also Present:** Councillor Ellis - Finance, Governance and Resources Portfolio Holder

**Officers:** Head of Financial Services (Deputy S.151)  
Director, Audit (Grant Thornton)  
Public Sector Audit Senior Manager (Grant Thornton)  
Senior Lead Lawyer (Commercial Property and Regeneration)

**AUC.55/22 APOLOGIES FOR ABSENCE**

An apology for absence was submitted on behalf of Councillor Patrick.

**AUC.56/22 PUBLIC AND PRESS**

It was agreed that the items in Part A be dealt with in public and the items in private be dealt with in Part B.

**AUC.57/22 DECLARATIONS OF INTEREST**

There were no declarations of interest submitted.

**AUC.58/22 DRAFT AUDIT FINDINGS REPORT 2021-22 FOR CARLISLE CITY COUNCIL**

The Director, Audit (Grant Thornton) presented the Draft External Audit Findings Report for 2021/22 for Carlisle City Council. Overall, the External Audit work was substantially complete and the Director anticipated that the audit report opinion would be unmodified and noted the Annual Governance Statement and Narrative Report was of a high standard.

The statutory deadline for the completion of the External Audit process was 30 November 2022, the Director, Audit stated that the work would not be completed by then due to a national auditing issue in relation to infrastructure assets which may have a material impact on the Council's Financial Statements. A statutory override mechanism would come into force on 25 December 2022, accordingly, the formal sign off of the Council's accounts would not take place until January 2023. The Director emphasised that the matter was a national issue and not a reflection on the Council's processes or performance.

The Director, Audit, gave an overview of the external auditor's work in preparation for Local Government Organisation and responded to a question from a Member regarding the Minimum Revenue positions of the sovereign Councils that would be superseded by Cumberland Council.

In relation to the financial statements external audit findings, six adjustments had been identified and accepted by management which had resulted in a £0.724M increase in the Council's Comprehensive Income and Expenditure Statement. Appendix C detailed each of the adjustments recommend by Grant Thornton, with the follow up recommendations from the previous year's audit set out in Appendix B.

The Director, Audit advised that Grant Thornton continued to lease an area within the Civic Centre to provide office space for those conducting external audit work, he did not consider the arrangement fettered the work of external audit. The Director further advised that his tenure as external auditor to the City Council had been extended so that he would remain in the role until the completion of the 2022/23 external audit process. Generally external auditors were appointed for a five year term, however, given the imminent reorganisation of local government in Cumbria, it had been agreed that he remain in the role to ensure a consistent audit quality. The matter would be included in the final external audit report.

The Public Sector Audit Senior Manager drew Member's attention to and summarised the following areas of the report: Management Override of Controls; Financial Statements - Significant Risk; Financial Statements - new issues and risks; Financial Statement - key judgements and estimates; Financial Statements - Internal Controls; Financial Statements - matters discussed with management; and Financial Statements - other responsibilities under the Code. Furthermore, she thanked Officers for their assistance in the external audit work.

The Value For Money aspect of the External Audit was not yet complete, an audit letter explaining the reasons for the delay was reproduced in the report (Appendix G refers). Resultantly, Grant Thornton had not been in a position to issue its External Auditor's Annual Report, it was expected that the Report would be issued in December 2022 which remained in accordance with the National Audit Office's requirement that the Report be published within three months of the publication of the External Auditor's opinion on the Council's Financial Statements.

In considering the Draft Audit Findings Report, Members raised the following questions and comments:

- In relation to the valuation of land and buildings and investment property, a Member sought clarification on the level of valuation for The Lanes and The Market Hall individually.

The Public Sector Audit Senior Manager undertook to incorporate the individualised valuations in the final report.

- Responding to a question from a Member, regarding the valuation of rents, the Head of Financial Services advised that the Council used a different types of valuation bases, depending upon the nature of the asset. For example, depreciation valuation costs would vary by type of asset.

The Public Sector Audit Senior Manager noted that there had been two queries in respect of investment properties which the Council was to respond to in order for the work in that area to be complete.

The Head of Financial Services (Deputy S.151) advised that a response on those matters had been received from the Council's valuers that morning: he would review the content of the response before circulating it to the external auditors.

- A Member sought clarification on the position of the valuation of pension fund net liability.

The Public Sector Audit Senior Manager explained that the Local Government Pension Scheme Auditors (for the national scheme) had identified a number of errors including: the opening position not being correct which had led to an overstatement of the pension fund net assets being identified and subsequently confirmed by independent valuation. The net impact of the overstatement was a £0.373M pension liability understatement.

- A Member asked why management had decided not to implement IFRS16?

The Head of Financial Services (Deputy S.151) explained that the IFRS16 related to the accounting of leases. Given that upcoming transition to unitary authority in Cumbria and the different positions of the sovereign councils on the matter, it had been considered prudent to not early adopt the practice. Cumberland Council would pick up the matter prior to the implementation date of 1 April 2024.

The Member proposed that the Panel recommend that the City Council implement IFRS16.

Another Member responded that he appreciated and agreed with the Officer's explanation on the matter. He stated that the role of Members of the Committee was to address audit matters relating to Carlisle City Council, not Cumberland Council.

The Chair agreed with the Member noting that the Officer's response had provided assurance that the decision taken was appropriate.

- Regarding the 44 of the 148 assets with a nil net book value that had been identified, the Chair asked what type of assets they were.

The Head of Financial Services (Deputy S.151) explained that they were primarily vehicles, plant and equipment, with some IT assets. The assets may have been kept for longer than originally intended but remained in use. The work to update the register was significant and would be completed by 31 March 2023.

The Chair responded that in relation to vehicles, would using vehicles kept longer than planned impact on the organisation's carbon footprint?

The Head of Financial Services advised that such assets were not retained as part of the operational fleet but were used to support service delivery capacity, for example a vehicle would in the event of a vehicle in the operational fleet going to be serviced.

RESOLVED - That the Audit Committee welcomed the unqualified external audit opinion and looked forward to receiving the Value For Money audit opinion in due course.

## **AUC.59/22 STATEMENT OF ACCOUNTS 2021/22**

The Head of Financial Services (Deputy S.151) reported (RD.39/22) that the Council's Statement of Accounts 2021/22 had been subject to an audit process which commenced in July and was required to be completed by the end of November in line with amended statutory regulations.

With reference to the preceding item of business: Draft Audit Findings Report 2021-22 for Carlisle City Council, all adjustments identified therein were incorporated into the Statement. As a result of the outstanding matter regarding asset valuations it was likely that the Statement would require amendment. The bulk of the work in relation to that matter was complete, no material or significant issues had been identified that were likely to necessitate an adjustment to the values in the financial statements. However, it was feasible that the Narrative Report may require amendment once the work had been finalised.

The report recommended that the Committee approve the 2021/22 Statement of Accounts including the Annual Governance Statement. Given the issue of asset valuations set out above, the Head of Financial Services (Deputy S.151) suggested that the Committee consider: whether it was minded to approve the Statement of Accounts subject to the completion of the work on asset valuations, with the updated Statement being submitted to the Committee at its December 2022 meeting; or, that authority be delegated to the Chair of the Committee and the Corporate Director of Finance and Resources to approve and sign-off the Statement of Accounts once the asset valuation work was complete.

In considering the Statement of Accounts 2021/22 Members raised the following questions and comments:

- With reference to the Key Risks section (page 68 refers), was it possible that were the Carlisle Southern Link Road (CSLR) not to be realised that the City Council would require to take out a loan of £5M to meet its liability to Cumbria County Council?

The Head of Financial Services (Deputy S.151) advised that the £5M was included in the existing Medium Term Financial Plan as a cost. The timeline of the project extended beyond Vesting Day for Cumberland Council, therefore the matter would be addressed by that authority and was not a significant issue for Carlisle City Council.

Another Member asked whether it was known that Cumbria County Council had the relevant funding earmarked?

The Head of Financial Services (Deputy S.151) responded that at the time the costs of the CSLR project were agreed, both City and County Councils agreed to a £5M contribution, however, given the creation of unitary local authority, the matter would be dealt with by Cumberland Council.

- Had all the Council's civic regalia been valued?

The Head of Financial Services (Deputy S.151) confirmed that all the City Council's civic regalia were valued and registered for insurance purposes.

The Finance, Governance and Resources Portfolio Holder noted that Council at its meeting of 8 November 2022, had approved a proposal that civic regalia items were, upon the termination of Carlisle City Council, to come under the charge of a Charter of Trustees the membership of which would be determined by parliament.

Members considered the recommendations presented by the Head of Financial Services (Deputy S.151) in respect of the Statement of Accounts 2021/22.

**RESOLVED** - That the Audit Committee delegate authority to approve the Statement of Accounts 2021/22 including the Annual Governance Statement to the Chair of the Committee and the Corporate Director of Finance and Resources subject to the completion of work in

relation to asset valuations.

#### **AUC.60/22 LETTER OF REPRESENTATION 2021/22**

The Head of Financial Services (Deputy S.151) reported (RD.40/22) submitted the Letter of Representation 2021/22 which set out the adjustments made to the accounts and confirmed the Council's fulfilment of its auditing obligations. Members were asked to approve the Letter of Representation 2021/22.

RESOLVED – That the Audit Committee approved the Letter of Representation for 2021/22.

The Meeting ended at: 11:18