



The Annual Audit Letter for Carlisle City Council

Year ended 31 March 2016

October 2016

Jackie Bellard

Engagement Lead

T 0161 234 6394

M 0788 045 6195

E jackie.bellard@uk.gt.com

Angela Pieri

Engagement Manager

T 0141 223 0887

M 0755 433 8555

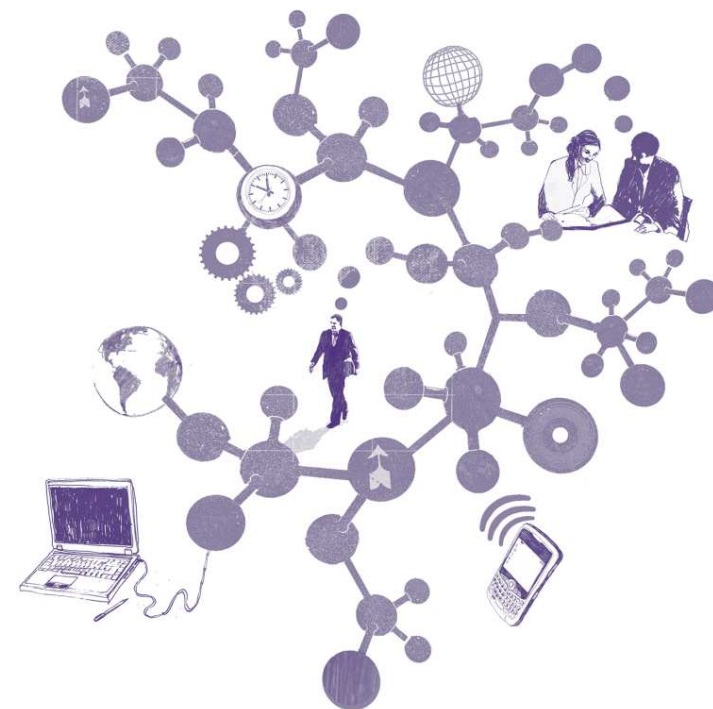
E angela.l.pieri@uk.gt.com

Amelia Payton

Engagement In-Charge Auditor

T 0161 953 6943

E amelia.l.payton@uk.gt.com



Contents

Section	Page
1. Executive summary	3
2. Audit of the accounts	4
3. Value for Money conclusion	7
4. Working with the Council	9
Appendices	
A Reports issued and fees	10

Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Carlisle City Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 27 September 2016.

Our responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

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

Our work

Financial statements opinion

We gave an unqualified opinion on the Councils' financial statements on 27 September 2016.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 27 September 2016.

Certificate

We certified that we had completed the audit of the accounts of Carlisle City Council in accordance with the requirements of the Code on 27 September 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2016. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

Working with the Council

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £1,161,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as related party transactions, disclosure of officer's remuneration, salary bandings and exit packages, and disclosure of auditor's remuneration.

We set a lower threshold of £58,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

This includes assessing whether:

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

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

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund assets and liabilities as reflected in its balance sheet represent significant estimates in the financial statements and comprises 59% of its total liabilities. The values of the pension fund net liability is estimated by specialist actuaries.</p> <p>In 2015/16, in response to the move to earlier close-down, there is a greater degree of estimation in the information provided to the actuary.</p>	<p>The work we have performed on this risk included:</p> <ul style="list-style-type: none"> • documenting the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated; • walkthrough the key controls to assess whether they were implemented as expected in order to mitigate the risk of material misstatement in the financial statements; • reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the Council's actuary. <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>
<p>Valuation of property, plant and equipment (PPE) and investment properties</p> <p>The Council revalues its assets annually. Property Plant and Equipment represents 24% of the Council's assets. Their value is estimated by property valuation experts.</p> <p>The valuation of investment properties changed in 2015/16 because of the introduction of a new international financial reporting standard (IFRS 13). Investment properties represents 51% of the Council's assets and their value is estimated by property valuation experts.</p> <p>Cumbria experienced severe flooding in several areas during December 2015 impacting on a number of Council services, buildings and infrastructure. We gained an understanding of management's processes to account for the impact on asset valuations due to the flooding.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of management's processes and assumptions for the calculation of the estimate, new accounting standards and impact of flooding; • review of the competence, expertise and objectivity of any management experts used; • review of the instructions issued to valuation experts and the scope of their work; • discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions; • review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; • testing of revaluations made during the year to ensure they were input correctly into the Council's asset register; and • evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>Our work included a review of the valuation evidence for the critical flooding impact valuation judgements. Improvements were required to fully evidence any pertinent verbal discussions held between the internal and external valuers. No issues were identified in respect of the valuation of PPE or investment properties.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 27 September 2016, in advance of the 30 September 2016 national deadline.

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

The Council achieved early closedown, with accounts authorised for issue on 7 June 2016, which is over 3 weeks ahead of the specified deadlines. This was a great achievement given the additional work the Council finance team dealt with in responding to the floods.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 27 September 2016.

One misstatement to primary statements in the Comprehensive Income and Expenditure Statement (CIES) was identified and adjusted by management for £259,000. The error was in presentation only as the Movement in Reserves Statement (MIRS) was correctly stated.

Three unadjusted misstatements were also identified. The decision to not adjust for these issues did not impact upon the audit opinion. It was the auditor's judgement that two items included within income in advance totalling £88,000 should be recognised as income and one item within provisions for £325,000 was more suited as an earmarked reserve.

Twelve disclosure misstatements were also identified and adjusted by management. A summary of the main disclosure note adjustments are listed below:

- Note 4.12b – Amounts reported for resource allocation decisions – a classification error between fees and charges and government grants and contributions of £34,002,000 due to incorrect transposition.

- Note 4.31 - Surplus assets - a disclosure note was added to comply with IFRS13 reporting requirements.
- Note 4.34e – Fair value of liabilities carried at amortised cost – the fair value of a loan was overstated by £643,000 due to an incorrect valuation method.
- Note 4.34e – Fair value of assets carried at amortised cost – both the carrying value and fair value were overstated by £3,281,00 due to an item being included twice.
- Note 4.41 – Property Leases – the total was overstated by £562,000 due to calculation errors in the working paper.
- Note 4.4 – Movement in Reserves Statement - the mix of the note was incorrect as £891,000 was netted off both capital grants and revenue expenditure financed under statute (REFCUS).

We made six recommendations in an action plan in the Audit findings Report, all of which management agreed.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Other statutory duties

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

We did not use our other statutory duties.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out in table 2 overleaf.

Overall VfM conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Significant service transformation projects and the Medium Term Financial Plan (MTFP)</p> <p>The Council's has identified proposals for reducing spending and increasing efficiency. The programme includes a number of key projects, including internally reshaping the Council. This is significant both in scale and financial terms.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</p> <p>We reviewed the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Executive and Full Council.</p>	<p>The Council continues to face a challenging environment in the short to medium term. The MTFP approved by Council in September 2015 demonstrated that appropriate steps were being taken to ensure a balanced budget position against a background of reduced government funding. A Saving Strategy is in place and continues to focus on assets, service delivery models and the 'Transformation Programme' to deliver the savings required to produce a balanced longer term budget.</p> <p>The MTFP for 2016/17 to 2020/21 prepared in September 2015 identified savings requirements of £3.475 million. The MTFP for 2017/18 to 2020/21 in August 2016 identified savings requirements of £2.274 million, with 98% of the £1.201 million for 2016/17 already achieved. Of the £2.274 million in savings identified for 2017/18 onwards, £0.141 million has been achieved.</p> <p>The Council has a comprehensive approach to its medium term financial planning, budgeting and identification of saving plans, which are agreed at a corporate level, by senior officers and Members. The strategy is aligned to the Council's corporate priorities, highlights the key financial risks, and adopts a prudent approach to funding streams. The Council has taken this approach to allow it to have the flexibility and resilience in order to address the variable nature of future funding. The Council has good planning assumptions built into the annual and five year budget processes. The Council is responsive to changes required as the strategic planning process considers sensitivity analysis.</p> <p>Based on the review of the arrangements in place during 2015/16 for the compilation of the MTFP including identified savings we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in this area.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit within one month during August 2016, and completion was 3 weeks before the national deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Providing training – we provided access to your teams with training on financial accounts through workshops.

Providing understanding of external audit – we provided Audit Committee members with an understanding of external audit as part of a training session.

Providing information – we provided you with demonstration access to Place Analytics and CFO Insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness.

Sharing our insight – we provided regular external audit committee updates covering best practice. Areas we covered included, Innovation in public financial management, Knowing the Ropes – Audit Committee; Effectiveness Review, Making devolution work, Re-forging local government. We have also shared with you our insights on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts" and will continue to provide you with our insights as you bring forward your production of your year-end accounts.

Thought leadership – we have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

We will also continue to work with you and support you over the next financial year.

Appendix A: Reports issued and fees

We confirm below our final fees charged for the audit. There are no fees for other services.

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council	53,290	53,290	71,053
Housing Benefit Grant Certification	11,352	11,352	18,790
Total fees (excluding VAT)	64,642	64,642	89,843

Our grant certification fee for 2015/16 is still an estimate, as our work on the Council's housing subsidy claim is still on-going and will not be finalised until November 2016.

Reports issued

Report	Date issued
Audit Plan	19 April 2016
Audit Findings Report	27 September 2016
Annual Audit Letter	24 October 2016



© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk