

# AGENDA

## Audit Committee

**Thursday, 11 November 2021 AT 10:00  
In the Council Chamber, Civic Centre, Carlisle, CA3 8QG**

### **SPECIAL MEETING**

#### **APOLOGIES FOR ABSENCE**

To receive apologies for absence and notification of substitutions

#### **DECLARATIONS OF INTEREST**

Members are invited to declare any disclosable pecuniary interests, other registrable interests and any interests, relating to any items on the agenda at this stage.

#### **PUBLIC AND PRESS**

To agree that the items of business within Part A of the agenda should be dealt with in public and that the items of business within Part B of the agenda should be dealt with in private.

### **PART A**

**To be considered when the Public and Press are present**

#### **A.1 EXTERNAL AUDIT FINDINGS REPORT**

**3 - 48**

Grant Thornton to present the External Audit Findings Report for year ended 31 March 2021.  
(Copy Report herewith)

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## PART B

- NIL -

A.1

# The Audit Findings for Carlisle City Council

**Year ended 31 March 2021**

Carlisle City Council  
October 2021



# Contents



## Your key Grant Thornton team members are:

### Gareth Kelly

Key Audit Partner

E Gareth.Kelly@uk.gt.com

### Sophia Iqbal

Manager

### Hannah Foster

Assistant Manager

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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 have been discussed with management and will be discussed with the Audit Committee.

### Gareth Kelly

Name : Gareth Kelly

For Grant Thornton UK LLP

Date :

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.

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# 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 2021 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 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 remotely during July-November. Our findings are summarised on pages 5 to 22. We have identified 4 adjustments to the financial statements that have resulted in a £6.9m adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters listed on page 5 and the standard closure steps, including;

- receipt of management representation letter; 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 your 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 Appendix G to this report. We expect to issue our Auditor's Annual Report by December 2021. 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. To date, we have not identified any weaknesses in the Council's arrangements.

## 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 finalisation of our work on the Council's VFM arrangements and Whole of Government Accounts return, which will be reported in our Annual Auditor's Report in December 2021.

## 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 have been discussed with management and will be discussed at 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

We have not had to alter our plan, as communicated to you on the 28<sup>th</sup> July 2021.

### 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 11 November 2021, as detailed in Appendix E. These outstanding items include:

- completion of work on PPE valuations;
- completion of work on grant income;
- completion of housing benefits testing;
- final review by manager and engagement lead;
- receipt of management representation letter; 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. As highlighted in our Audit Plan, the impact of the pandemic has meant that both your finance team and our audit team faced significant audit challenges again this year, due to remote access working arrangements. We have worked effectively with your finance staff remotely accessing financial systems, video calling and verifying the completeness and accuracy of information provided remotely by the Council.

## 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.

Materiality levels remain the same as reported in our July 2021 audit plan.

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

### Council Amount (£) Qualitative factors considered

Materiality for the financial statements	1,179,000	This equates to 1.9% of your gross operating expenditure for 2019/20 year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	767,000	This is based on specific risks and sensitivities at the Council, such as the lack of deficiencies in control environment and quality of financial statements in prior years.
Trivial matters	59,000	This is the threshold for matters that are clearly inconsequential, whether taken individually or in aggregate.
Materiality for senior officers remuneration	10,000	This is due to its sensitive nature, with the value based on the salary bandings disclosed.





## 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 over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.

#### We have:

- evaluated the design effectiveness of management controls over journals
- analysed the journals listing and determine the criteria for selecting high risk unusual journals
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration
- gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence
- evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any evidence of management override of controls.



## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### ISA240 revenue and expenditure recognition risk

##### Revenue

ISA (UK) 240 includes a rebuttable presumed risk that revenue recognition may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted because:

- There is little incentive to manipulate revenue recognition and opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including Carlisle CC, mean that all forms of fraud are seen as unacceptable

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Carlisle City Council, mean that all forms of fraud are seen as unacceptable.

Therefore and as reported in our Audit Plan, we do not consider this to be a significant risk. Whilst not a significant risk, we have performed audit procedures and testing of material revenue items. Our audit work has not identified any matters that would lead to a change in our risk assessment.

##### Expenditure

In the public sector, whilst it is not a presumed significant risk, in line with the requirements of Practice Note (PN) 10: Audit of financial statements of public sector bodies in the United Kingdom - we also consider the risk of whether expenditure may be misstated due to the improper recognition of expenditure.

This risk is rebuttable if the auditor concludes that there is no risk of material misstatement due to fraud relating to expenditure recognition.

Based on our assessment we consider that we are able to rebut the significant risk in relation to expenditure, but will nevertheless, and in line with PN10, recognise the heightened inherent risk of 'other service expenditure' in our audit scoping and testing assessment.

In response to this risk we have:

- evaluated the Council's policy for the recognition of non-pay expenditure
- documented the goods received not invoiced accruals process and the processes management have in place, challenging key assumptions, the appropriateness of source data and the basis for calculations
- obtained a listing from the cash book of non-pay payments made in April and May 2021 to ensure they have been charged to the appropriate year
- obtained a listing from the Accounts Payable system of invoices received in April and May 2021 to ensure they have been charged to the appropriate year
- substantively tested a sample of year-end accounts payable and accrual balances.

Our audit work has not identified any other issues in respect of this significant risk.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

### Commentary

#### Valuation of Property, Plant and Equipment and investment property

Revaluation of property, plant and equipment 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.

Additionally, valuations are significant estimates made by management in the accounts.

Our 2019/20 opinion included an emphasis of matter paragraph drawing attention to disclosures included in the financial statements of a material uncertainty attached to property valuations as at 31 March 2020 due to the ongoing nature of the Covid-19 pandemic. This paragraph did not represent a modification of our audit opinion.

We have identified the valuation of land and buildings and investment property as a significant 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 2021 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
- reviewed whether the expert valuer has reported any material uncertainty in relation to property valuations as at 31 March 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion.

Our audit work has identified that two investment property assets, Gateway 44 and Viaduct Industrial Estate, were undervalued and overvalued by £7.051m and £361k respectively. The financial statements have been amended for these valuation differences. Fair Value Note 4.28 F&G was originally showing Gate 44 as Development land Level 3 but this has now been amended to Retail Level 2 as the asset is now in use. See Appendix 3 for further details.

The final income figure for the Lanes and Market Hall were received during the audit, post receipt of the accounts for audit. Although the income was not substantially different from the estimate, the difference on revaluation was significant and the Council has amended the financial statements. See Appendix C for further details.

Our audit work also identified one investment property in relation to Durranshill Industrial Estate where one lease was not given to the valuer in the prior year. As a result the prior year valuation was understated by £795k. The Council has reviewed all leases to confirm no others have been missed. This identified no leases have been missed but two rents were incorrectly applied in the valuation but these errors are trivial. See Appendix C for further details.

Our audit work to date has not identified any other issues in respect of this significant risk. We are still finalising our work in this area.

## 2. Financial Statements - Significant risks

### Risks identified in our Audit Plan

#### Valuation of the 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 involved (£52.532m in the Authority'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 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 Authority's pension fund net liability as a significant risk.

### Commentary

We have:

- Updated our understanding of the processes and controls put in place by management to ensure that the Authority'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 Authority's pension fund valuation
- assessed the accuracy and completeness of the information provided by the Authority 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
- undertook 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
- reviewed whether the pension fund has reported any material uncertainty in relation to investment property valuations as at 31 March 2021 and, if so, assess the impact on disclosures in the financial statements and on our audit opinion
- obtained assurances from the auditor of the Lancashire 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.

We reviewed the assumptions used in the estimations process see Page 12 for the detailed assessment.

We have found no issues with 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.

Our assessment of the work of the actuary confirmed that they were competent.

## 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
<b>IFRS 16 implementation</b> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected 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.</p>	<p>Our review of the accounts noted no disclosure was made in this area.</p>	<p>The Council accounts have been amended to include this disclosure. We are satisfied post audit that your disclosure is consistent with the requirements of IAS 8.</p>
<b>Recognition and Presentation of Grant Income</b> <p>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.</p>	<p>Judgement is required to determine whether the Council can be reasonably assured that the conditions of grant and contribution monies received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where conditions require specified expenditure to have taken place, the grant monies will not be recognised until this happens. Equally, where conditions specify that a grant or contribution must be repaid in the event of non-expenditure, the income is not recognised until the expenditure is incurred.</p> <p>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.</p>	<p>We have tested 12 grants with a total value of £33.3 million. The Council acting as an agent has received grant income of £44.0m in 2020/21 and as a principal grant income of £5.3m in relation to COVID-19 Grants.</p> <p>Our audit work is substantially complete in this area and has not identified any issues.</p>

## 2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £50.276m Investment Property – £83.6	<p>Other land and buildings comprises £41.031m of specialised assets such as The Sands Centre and Tullie House Museum, which are required to be valued at 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 (£9.245m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged Montagu Evans to complete a full valuation of properties as at 31 March 2021. A full revaluation of all assets is completed on an annual basis.</p> <p>Management have considered alternative requirements for DRC assets as these form the bulk of the asset base. Management and valuer have determined that asset valuation will be produced on a like-for-like basis and alternative footprints are not required.</p> <p>The total year end valuation of land and buildings was £50m, a net decrease of £7m from 2019/20 (£57m).</p> <p>Investment properties comprises £75.4m and include the Lanes Shopping Centre and Rosehill and Kingstown Industrial Estates. These have been valued on an income method at year-end taking into account current rental and other factors such as desirability of site. The remainder of investment properties (£8.2m) have been valued on market value with a higher level of valuer estimation required as there are fewer comparable transactions.</p> <p>Investment properties are all revalued in year in line with the IFRS Code, leaving no risk of material misstatement in respect of non-valued assets. Montagu Evans are also engaged to undertake Investment Property valuation.</p> <p>The total year-end valuation of investment properties was £83.6m, a net decrease of £7m from 2019/20 (£90.6m).</p>	<p>The Council's accounting policy on valuation of land and building is included in Accounting Policy 4.0.16 to the financial statements and investment property is accounting policy 4.0.13.</p> <p>In understanding how management has calculated the valuations we have:</p> <ul style="list-style-type: none"> <li>assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate.</li> <li>ensured the underlying information and sensitivities used to determine the estimate were considered to be complete and accurate.</li> <li>confirmed the valuer has prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.</li> <li>reviewed the level of disclosure in the financial statements to confirm it is appropriate.</li> </ul> <p>Our audit work has identified updates needed on valuations of certain investment properties. This has resulted in the investment property asset base valuation increasing by £5.8m.</p> <p>We have challenged the Council on the need for ongoing material valuation uncertainty in relation to the impact of COVID 19 and the absence of relevant/ sufficient market evidence on which to base valuation judgements. In light of RICS guidance in July 2021 and the Valuer not raising any material valuation uncertainty, we had discussions with the Council to provide its rationale and the decision making process as to why they feel a material valuation uncertainty does exist for certain asset categories. On further consideration of the recent guidance the Council are satisfied no material valuation uncertainty still exists.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious - Post audit changes</p>

### 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																												
<b>Net pension liability – £52.532m</b>	<p>The Council's net pension liability at 31 March 2021 is £52.532m (PY £47.322m) comprising the Local Government Pension Fund and unfunded defined benefit pension scheme obligations. 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.</p> <p>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 £2.828m net actuarial loss during 2020/21.</p> <p>The Council's Actuary, Mercer Ltd, have calculated some approximate effects of the costs of extending the transitional protections to younger members. The costings of the potential effect of McCloud at 31st March 2021, based on individual member data as at 2019 actuarial valuation and the results of those calculations based on the IAS19 assumptions have been included in the net pension liabilities on the Council's Balance Sheet.</p>	<p>In understanding how management has calculated the estimate of the net pension liability we have:</p> <ul style="list-style-type: none"> <li>assessed management's expert;</li> <li>assessed actuary's approach taken, detail work undertaken to confirm reasonableness of approach;</li> <li>used PwC as auditors expert to assess actuary and assumptions made by actuary as outlined in the table below;</li> </ul> <table> <tr> <th>Assumption</th><th>Actuary Value</th><th>PwC range</th><th>Assessment</th></tr> <tr> <td>Discount rate</td><td>2.10%</td><td>2.10% – 2.20%</td><td>●</td></tr> <tr> <td>Pension increase rate</td><td>2.70%</td><td>2.70%</td><td>●</td></tr> <tr> <td>Salary growth</td><td>4.20%</td><td>3.95% - 4.20%</td><td>●</td></tr> <tr> <td rowspan="2">Life expectancy – Males currently aged 45 / 65</td><td>Male Pensioner 22.7 years</td><td>Male Pensioner 20.9 - 23.2 years</td><td rowspan="2">●</td></tr> <tr> <td>Male non pensioner 24.3 years</td><td>Male non pensioner 22.5 - 24.7 years</td></tr> <tr> <td rowspan="2">Life expectancy – Females currently aged 45 / 65</td><td>Female Pensioner 25.3 years</td><td>Female Pensioner 24.0 - 25.8 years</td><td rowspan="2">●</td></tr> <tr> <td>Female non pensioner 27.2 years</td><td>Female non pensioner 25.9 - 27.7 years</td></tr> </table> <ul style="list-style-type: none"> <li>assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>reviewed the impact of any changes to valuation method;</li> <li>assessed the reasonableness of the Council's share of LPS pension assets;</li> <li>assessed the reasonableness of the movement in the estimate;</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p>Our audit work has not identified any issues in respect of this significant estimate. As disclosed on page 10, the net pension liability was restated by £1.1 million following audit. We are satisfied that the estimate of your net pension liability is not materially misstated.</p>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.10%	2.10% – 2.20%	●	Pension increase rate	2.70%	2.70%	●	Salary growth	4.20%	3.95% - 4.20%	●	Life expectancy – Males currently aged 45 / 65	Male Pensioner 22.7 years	Male Pensioner 20.9 - 23.2 years	●	Male non pensioner 24.3 years	Male non pensioner 22.5 - 24.7 years	Life expectancy – Females currently aged 45 / 65	Female Pensioner 25.3 years	Female Pensioner 24.0 - 25.8 years	●	Female non pensioner 27.2 years	Female non pensioner 25.9 - 27.7 years	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious</p>
Assumption	Actuary Value	PwC range	Assessment																												
Discount rate	2.10%	2.10% – 2.20%	●																												
Pension increase rate	2.70%	2.70%	●																												
Salary growth	4.20%	3.95% - 4.20%	●																												
Life expectancy – Males currently aged 45 / 65	Male Pensioner 22.7 years	Male Pensioner 20.9 - 23.2 years	●																												
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	Female non pensioner 27.2 years	Female non pensioner 25.9 - 27.7 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
Provisions for Business Rates Appeals - £1.341m	The Council are responsible for repaying a proportion of successful rateable value appeals. Management calculate the level of provision required. Carlisle's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. There has only been a minimal increase in the provision in 2020/21.	<p>To review the estimate, we have;</p> <ul style="list-style-type: none"> <li>reviewed the appropriateness of the underlying information used to determine the estimate</li> <li>reviewed the impact of any changes to the valuation method</li> <li>assessed the reasonableness of the estimate</li> <li>reviewed the adequacy of disclosure of estimate in the financial statements</li> </ul> <p>Our audit work has not identified any issues in respect of this significant estimate.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

### 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
<p><b>Covid-19 Grants Income Recognition and Presentation –</b></p> <p><b>£5.3m Principal</b></p> <p><b>£44.0m Agent</b></p> <p>Due to the Covid-19 pandemic there has been a significant increase in the level of Covid related grant funding with associated complexity and management judgement required.</p> <p>This has comprised a mix of discretionary and non-discretionary schemes.</p>	<p>Management take into account three main considerations in accounting for grants:</p> <ul style="list-style-type: none"> <li>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.</li> </ul> <p>Management's assessment needs to consider 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.</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul> <p>There may be significant judgements over the accounting treatment. Different conclusions may be reached by authorities depending on how they have applied any discretion in administering the schemes - are these judgements reasonable and sufficiently disclosed to meet the requirements of IAS 1:125.</p>	<p>We have tested a sample of grants received to confirm the following:</p> <ul style="list-style-type: none"> <li>whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all;</li> <li>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 is recognised as a receipt in advance or income;</li> <li>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;</li> <li>reviewed the adequacy of disclosure of judgement in the financial statements.</li> </ul> <p>Our audit testing has been substantially complete and no issues have been identified.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious.</p>

### 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
<b>Depreciation and useful economic lives of assets</b>	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.	<p>We have:</p> <ul style="list-style-type: none"> <li>Reviewed the accounting policy;</li> <li>Recalculated the depreciation charge based on the useful economic lives as provided by the valuer as well as an overall recalculation of depreciation;</li> <li>Assessed the reasonableness of the useful economic life for a sample of assets; and</li> <li>Assessed the appropriateness of the policy in line with the financial reporting framework.</li> </ul> <p>Our audit work has not identified any issues in respect of this significant estimate.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious
<b>Minimum Revenue Provision - £0m</b>	<p>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.</p> <p>The year end MRP charge was nil, a net decrease of £20,000 from 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>assessed whether the MRP has been calculated in line with the statutory guidance</li> <li>whether the Council's policy on MRP complies with statutory guidance</li> <li>assessed 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</li> <li>assessed the reasonableness of the decrease in MRP charge.</li> </ul> <p>At 31 March 2021, the Council's MRP was nil. At 31 March 2020 the MRP was £.02 million. The Council has assessed MRP in previous years and identified an overpayment, and therefore the MRP charge for this year reflects the net position after the overpayment deduction.</p> <p>In 2017/18 the Council completed a review of the MRP made which identified an over provision of £1.1m over the years in relation to voluntary MRP and MRP charged on AUC. The Council agreed to adjust the charges for the financial years 2017/18 to 2021/22 by £226k to cover this charge. In 2020/21 the MRP which should have been charged was £182k, this has been reduced to nil.</p> <p>The overarching requirement is for authorities to determine a "prudent" provision, rather than to follow a particular basis of calculation. If the MRP is too low, the burden of financing capital assets will fall on future generations of tax-payers. We have recommend that the Council review it's MRP policy to ensure the provision continues to be prudent and is sufficient to finance capital expenditure that has not previously been financed through the application of capital receipts, capital grants or direct revenue charges. See Appendix A for this recommendation.</p>	We consider management's process is appropriate and key assumptions are neither optimistic or cautious but have advised management to review going forward

### 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 - 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 and post year-end.	<p>Announcement of Local government reorganisation with effect from 1 April 2023. This does not affect the 2020/21 financial year but worthy of note, and Management has updated Note 7 Events after the balance sheet date.</p> <p>Updated IAS19 pension reports as a result of the updated fund value, which impacted on the Council's plan assets by £1.122m as outlined in the adjusted misstatements in Appendix C.</p>

## 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 previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
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 appended to this report.

## 2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the bank and investment bodies as well as long term debtors. This permission was granted and the requests were sent.
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.
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	<p data-bbox="871 464 2056 608">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.</p> <p data-bbox="871 620 2016 675">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="871 687 2074 986" style="list-style-type: none"> <li>• 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</li> <li>• 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.</li> </ul> <p data-bbox="871 999 2056 1142">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:</p> <ul data-bbox="871 1155 1973 1300" style="list-style-type: none"> <li>• the nature of the Council and the environment in which it operates</li> <li>• the Council’s financial reporting framework</li> <li>• the Council’s system of internal control for identifying events or conditions relevant to going concern</li> <li>• management’s going concern assessment.</li> </ul> <p data-bbox="871 1313 2051 1335">On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="871 1348 2051 1447" style="list-style-type: none"> <li>• a material uncertainty related to going concern has not been identified</li> <li>• management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>Some minor amendments have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• 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,</li> <li>• if we have applied any of our statutory powers or duties.</li> <li>• where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es.</li> </ul> <p>We have nothing to report on these matters</p>



## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
<b>Specified procedures for Whole of Government Accounts</b>	<p>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.</p> <p>The requirements in respect of this work have not yet been confirmed. In previous years the work has not required as the Council does not exceed the threshold. We expect this to be the case this year.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to delay the certification of the closure of the 2020/21 audit of Carlisle City <b>Council</b> in the audit report, as detailed in Appendix E, due to incomplete VFM work.</p>



# 3. Value for Money arrangements

## Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

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

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## 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 2021. 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.

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in 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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

# 5. 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 services were identified which were charged from the beginning of the financial year to October 2021, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.




Service	Fees £	Threats identified	Safeguards
Audit related			
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 £66,733 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.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.




# Appendices

# A. Action plan – Audit of Financial Statements

We have identified 2 recommendation 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
	A small number of the valuations included in investment properties required amending to include the impact of up to date information.	<p>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.</p> <p><b>Management response</b></p> <p>The data quality process will be enhanced to ensure that the asset valuation procedures contain all of the relevant and accurate information for valuation purposes – work in this regard has already commenced. The quality assurance process will also be enhanced.</p>
	We identified one lease in respect of Durranshill Industrial Estate was missed therefore investment properties were undervalued.	<p>Ensure all leases are complete and provided to the Valuer in full for valuations purposes.</p> <p><b>Management response</b></p> <p>The data quality process will be enhanced to ensure that the asset valuation procedures contain all of the relevant and accurate information for valuation purposes – work in this regard has already commenced.</p>
	Heritage assets are valued using an insurance valuation, however the last valuation was carried out in 2014.	<p>Ensure assets are valued in line with a 5 year programme.</p> <p><b>Management response</b></p> <p>This will form part of the next revaluation programme.</p>

## 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 Council's 2019/20 financial statements, which resulted in 4 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management has implemented one and is making progress on all of our other recommendations.

We will provide an update on these in the Annual Audit Report.

## Assessment

- ✓ Action completed
- ✗ Not yet addressed

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<b>Revaluations</b> We identified significant concerns with the approach used to calculate DRC and other revaluations by the valuer.	We have undertaken a thorough quality review of the 2020/21 asset valuation process with finance logging queries on the bases of valuation and any significant change in the indices used or movement in valuations from previous year. The valuer is the same valuer that undertook the revised valuations in 2019/20 so we have greater confidence in the information provided. Property has also undertaken a sample check of the calculations to arrive at valuations and have satisfied themselves that on the assets checked all is in order. All queries and responses have been logged.
In progress	<b>Capital Projects</b> The total costs on the Sands Centre Redevelopment continues to increase from the initial £14.2 million to £27.2m.  Any capital programme overruns should be closely monitored to ensure the Council does not breach its treasury management limits.	The Council is ensuring that capital projects are robustly costed and has provided resources for management of capital projects through the 2021/22 budget process. A Project Management Office is also being established for the major projects to be delivered through the Future High Street Fund, Town Deal and St. Cuthbert's Garden Village. The Sands project is monitored on a weekly basis by the internal project manager and key Officers, as well as having regular meetings with the external project support and contractor.
In progress	<b>Run Rate</b> 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.	Reserves are closely monitored and minimum levels of GF Balance are risk assessed as part of the MTFP prior to the budget process. Any additional requirement from GF Balances requires Council approval and would only be recommended if reserves were maintained above minimum levels. Use of reserves is then also considered as part of the budget process and the fact that the MTFP and budget provide indicative impact of spend over the following 5-years, provides the Council with security that reserves are being maintained at appropriate levels. For 2020/21 the Council was significantly underspent and has increased its level of GF reserves.
In progress	<b>Medium Term Financial Plan</b> 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.	Income continues to be closely monitored through the budget process and where necessary changes to budgets are reflected. The MTFP for 2022/23 will include greater use of sensitivity analysis and the impact that certain income streams have on the overall budget. Where income is uncertain or subject to increased volatility this will be identified.

# 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<b>IAS19 pension report re-run</b>	1,122	1,122	1,122
Re-run of IAS19 pension report due to subsequent valuations in Cumbria LGPS fund value, resulted in an decrease in plan assets of £1.122m for Carlisle and corresponding decrease in net pension liability. This has also impacted on Note 4.41.	Remeasurement of pension liability	Unusable reserves (1,122) Net pension liability	
<b>Gateway 44</b>	7,051	7,051	7,051
Following auditor challenge of the valuer around basis of valuation, the valuation of Gateway 44 was revisited and updated from a value of £2.415m to a value of £9.466m	Surplus or deficit on revaluation of NCA	Investment property	
<b>Viaduct Industrial Estate</b>	(361)	(361)	(361)
Following auditor challenge of the valuer around rental figures, the valuation of Viaduct Industrial Estate was revisited and updated from a value of £542k to a value of £181k.	Surplus or deficit on revaluation of NCA	Investment property	
<b>Lanes and Market Hall</b>	(911)	(911)	(911)
During the audit the Council received the final income figures for this audits. The valuation was revisited and updated from a value of £6.166m to £5.255m	Surplus or deficit on revaluation of NCA	Investment property	
<b>Overall impact</b>	<b>£6,901</b>	<b>£5,779</b>	<b>£6,901</b>



# 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 issue	Adjusted?
<b>Narrative Report</b>	✓
Some prior year figures were updated within the Non-financial performance tables.	
<b>CIES - Exceptional item</b>	✓
Heading on face of CIES and in Note 4.11 refers to Flooding – this relates to previous year.	
<b>Note 4.1 Accounting Standards that have been issued but have not yet been adopted</b>	✓
Sensitivity analysis around Business Rate appeals to be included in note.	
<b>Notes 4.2 Critical Judgements in applying Accounting Policies/4.27 Bases of Valuation</b>	✓
Material valuation uncertainty that was in place in prior year has now been lifted therefore narrative to be removed from notes.	
<b>Note 4.3 Critical Judgements in applying Accounting</b>	✓
To include reference to Covid 19 funding flows.	
<b>Note 4.16 Cumbria Business Rates Pool</b>	✓
Amounts in accounts were updated to incorporate the final figures for Cumbria Business Rates Pool for 2020/21.	
<b>Note 4.18 Officers' Remuneration</b>	✓
One banding had not been included in the remuneration banding range 'Between £60,000 and £64,999' even though there is one employee who has income earned for the year within this banding.	
One employee between the £100,000-£104,999 banding left during 20/21 but was not included in the table.	
<b>Note 4.2 Critical Judgements in applying Accounting Policies</b>	✓
Reference to material valuation uncertainty has been removed in line with the valuers report and RICS guidance.	

# 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 issue	Adjusted?
<b>Note 4.19 External Audit Costs</b> Omission of £5,000 for non-audit fees.	✓
<b>Note 4.21 Related Parties (Central Government)</b> Creditors: The correct figure is as per Note 4.35 £3.935m. A late adjustment of £22k was made to the figure of £3.957m. Narrative at 4.21 will be updated from £3.957million to £3.935million. Debtors: The correct figures is as per Note 4.33 £1.589m. A late adjustment of £189k was made to the figure of £1.400m. Narrative at 4.21 will be updated from £1.400million to £1.589million.	✓
<b>Note 4.28 Investment Properties</b> Notes (f) and (g) have been amended to show the Council has no Level 3 investments for 2020/21, as Gateway 44 is now valued as Level 2 Retail and not Level 3 Development land.	✓
<b>Note 5.2 Notes to the Collection Fund</b> Debtors for Local Taxation - Amount in accounts are different to Aged Debt Analysis working paper.	✓
<b>IFRS 16</b> Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected 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.	✓
<b>Annual Governance Statement</b> Minor amendments have been made to the statement to highlight there are no significant weaknesses and no action points to consider.	✓
<b>Note 4.37</b> Business Rate Retention Appeals provision in point (iii)a is to be amended to £3.354m to agree to NNDR3 Return.	✓

# C. Audit Adjustments



## Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Durranhill Industrial Estate – lease missing from information sent to the valuer therefore investment properties were undervalued.	795	795	795	Not material
<b>Overall impact</b>	<b>£795</b>	<b>£795</b>	<b>£795</b>	

# 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	66,733	TBC
Total audit fees (excluding VAT)	£66,733	TBC

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

The fees reconcile to the financial statements

- fees per financial statements £95,622
- additional fee for 2019/20 (£28,889)
- total fees per above £66,733

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

# 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 2021, which comprise, the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 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 2020/21; 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.

# E. Audit opinion (Continued)

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 2020/21 that the Authority's 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, 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.

## 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

# E. Audit opinion (Continued)

- 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 For the Statement of Accounts, 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 2020/21, 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](http://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 regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards) as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003 Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992) and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;



# E. Audit opinion (Continued)

- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, Internal Audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to management override of control, in particular journals, management estimates and transactions outside the course of business.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on the material year end transactions and manual journals posted during the year with high risk characteristics;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations;
  - 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. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from 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 expenditure recognition, and the significant accounting estimates related to land and buildings and defined benefit pensions liability valuations.
- 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 (Continued)

## 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 2021.

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 2021.

### 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 April 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 2021 in accordance with the requirements of the 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 2021.

We are satisfied that this work does not have a material effect on the financial statements.

# E. Audit opinion (Continued)

## 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:

Name Gareth Kelly, Key Audit Partner

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

Glasgow

### Date:

# F. Management Letter of Representation

## [LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP

Glasgow

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION}

Dear Sirs

**Carlisle City Council**

**Financial Statements for the year ended 31 March 2021**

This representation letter is provided in connection with the audit of the financial statements of Carlisle City Council for the year ended 31 March 2021 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 2020/21 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 2020/21 ("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 [...]. 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.
- 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.

# F. Management Letter of Representation

- 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. 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 OR list reasons]*. 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. *The prior period adjustments disclosed in Note [X] to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.*
- xv. 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.

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.

## Information Provided

- xvi. 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, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xvii. We have communicated to you all deficiencies in internal control of which management is aware.
- xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix. 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.
- xx. 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.
- xxi. 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.
- xxii. 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.

# F. Management Letter of Representation

- xxiii. 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.
- xxiv. 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

- i. 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

- i. 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 11/11/21.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

**Signed on behalf of the Council**

# G. Audit letter in respect of delayed VFM work

Our ref: VFM delay

Chair of Audit Committee

Keith Meller

Sent by email

20 September 2021

Dear Keith

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their 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 30 December 2021.

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









# Carlisle City Council

## Report to Audit Committee

Item  
A.2

### Report details

Meeting Date:	11 November 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Policy and Budget Framework	Yes
Public / Private	Public
Title:	STATEMENT OF ACCOUNTS 2020/21
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD45/21

### Purpose / Summary:

The Council's Statement of Accounts 2020/21 has been subject to an audit process which commenced in September and which should have been completed by the statutory deadline of 30<sup>th</sup> September 2021. However, the audit review process was delayed due to the lateness of completing the 2019/20 accounts and therefore the audit was only completed in October.

Therefore, the Audit is now complete with the Auditor's Audit Findings Report (ISA260) Report being considered elsewhere on the agenda. That report anticipates providing the Council with an unqualified opinion on the Accounts, with the VFM conclusion to follow at a later date. It also details any issues found during the course of the audit process, and any amendments required to the Accounts which must be reported and approved by Members of the Audit Committee.

There are recommendations made by the Auditor. The completed action plan will be reviewed and closely monitored during 2021/22.

The accounts are in the process of final checking in line with the AFR and, as outlined in the AFR, there are a few areas still outstanding on the audit. Therefore, the final Statement of Accounts will be circulated to the Committee separately once the final quality review is completed.

### Recommendations:

The Committee is asked to approve the 2020/21 Statement of Accounts including the Annual Governance Statement.

### Tracking

Audit Committee:	11 November 2021
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Meeting Date:	11 November 2021
Portfolio:	Finance, Governance and Resources
Key Decision:	Not applicable
Within Policy and Budget Framework	Yes
Public / Private	Public
Title:	LETTER OF REPRESENTATION 2020/21
Report of:	CORPORATE DIRECTOR OF FINANCE AND RESOURCES
Report Number:	RD44/21

## **Purpose / Summary:**

The Audit of the Statement of Accounts for 2020/21 is now completed with the Auditors Audit Findings Report (ISA260) being considered elsewhere on the agenda. Following approval of that report, the Auditors will issue their formal opinion on the accounts and the audit process for the Statement of Accounts 2020/21 will be complete.

However, in accordance with Auditing Standards, a Letter of Representation must also be considered and approved by the Audit Committee before the audit opinion is provided. The Letter of Representation is attached and once approved by the Committee, it will be signed by the Corporate Director of Finance and Resources on behalf of the Council.

## **Recommendations:**

The Committee is asked to approve the Letter of Representation for 2020/21.



## Finance and Resources Directorate

### Financial Services

Corporate Director of Finance and Resources: Alison Taylor CPFA

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**Your ref:**

**Our ref:**

Steven Tickner

01228 817280

[Steven.tickner@carlisle.gov.uk](mailto:Steven.tickner@carlisle.gov.uk)

AT

11 November 2021

Dear Mr Kelly

### Financial Statements for the year ended 31 March 2021

This representation letter is provided in connection with the audit of the financial statements of Carlisle City Council for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the 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 2020/21 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 2020/21 ("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 Property, Plant and Equipment, Investment Property, Pensions and Business Rate Appeals. 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.
- 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

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 prior-period misstatements schedule included in your Audit Findings Report. 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.
- 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. The prior period adjustments disclosed in Note 4.1 to the financial statements are accurate and complete. There are no other prior period errors to bring to your attention.
- xv. 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.

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. Any other matters that the auditor may consider appropriate.

## Information Provided

- xvii. We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the 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, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.
- xviii. We have communicated to you all deficiencies in internal control of which management is aware.
- xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xx. 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.
- xxi. 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.
- xxii. 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.
- xxiii. 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.
- xxiv. 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.
- xxv. 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**

- xxvi. 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**

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

## **Approval**

The approval of this letter of representation was minuted by the Council's Audit Committee at its meeting on 11 November 2021.

## **Signed on behalf of Carlisle City Council**

Alison Taylor

Corporate Director of Finance and Resources

Section 151 Officer

Steven Tickner

Financial Services Manager

Deputy S.151 Officer

11 November 2021