

Carlisle City Council audit plan

Year ending 31 March 2022

Carlisle City Council
June 2022



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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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Significant improvements from the Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: [FRC AQR Major Local Audits October 2021](#)

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018/19	Number 2019/20	Number 2020/21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Significant improvements from the Financial Reporting Council's (FRC) quality inspection (cont.)

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits an society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Key matters

Factors

Council developments

We have continued to hold regular meetings with the senior finance team at the Council. During these meetings we discuss a range of key issues regarding the Council's general developments, current and projected financial performance and emerging financial reporting issues. On 3 February 2022 CIPFA LASAAC launched a consultation on proposals for an update of the 2021-22 Code, relating to the approach to measurement of operational property, plant and equipment. The Council has responded to this consultation, which closed on 3 March 2022. CIPFA LASAAC published their preliminary decision on 17 March:

- not progress the proposals around the pausing formal valuation of assets; and
- to pursue the proposal on deferring IFRS 16, but note that this is the Board's preliminary decision, subject to the other steps in the governance process.

FRAB agreed with the deferral of IFRS 16 to 2024/25 but advised that the Code must also allow for early adoption from 1 April 2022 or 1 April 2023. CIPFA are considering how the provisions for early adoption in 2022/23 or 2023/24 may be reflected in the relevant editions of the Code.

Response and Recovery from Covid 19 pandemic

The Covid-19 pandemic continued to have a significant impact on the normal operations of the Council. During 2021-22 the Council has been focused on response and recovery. It has had to work differently at all levels to be able to deliver all of its required services effectively. The Council has continued to receive Covid related grant funding from the government.

Local Government Re-organisation in Cumbria

Local Government Re-organisation (LGR) will take place in Cumbria on 1 April 2023. Cumbria County Council, and the 6 Cumbrian district councils will be replaced by two unitary councils. These two unitary councils will take on responsibility for the services currently delivered by Cumbria County Council and the district councils.

Practice Note 10 confirms that, in most public sector bodies, 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 body'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. This is the case for the Council, as services will continue to be delivered by the public sector after 1 April 2023.

The Council is contributing to the structures, which have been set up to deliver LGR. These include the Cumbria Leaders Oversight Forum, the Chief Executives Programme Board and the Workstream/Programme Boards. Internally, the Council has introduced structures to ensure it can deliver LGR, whilst maintaining 'business as usual' statutory core services. County wide £19 million has been set aside for the transition, of which the Council has contributed circa £1.6 million, with the vast majority of this to be spent on outside strategic partner consultants and recharges for officers time spent on LGR related workstreams.

The LGR agenda is progressing at pace, with the Structural Changes Order, which will formally create the two Council's now laid before parliament and the first Joint Committee meeting was held on 29 March 2022. The elections to shadow authorities have taken place in May 2022, ahead of vesting day on 1 April 2023. It is widely acknowledged that, the transformation will continue for a significant period after this date.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the S151 Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, the planning report should include reference to consideration of progress against previously agreed recommendations.
- We will continue to provide you with sector updates via our Audit Committee updates
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control and revenue recognition.
- We will review the accounting treatment for Covid-19 funding for compliance with the code and applicable financial reporting standards.
- We will review the accounting treatment for the County wide LGR implementation reserve and associated income and expenditure for compliance with the code and applicable financial reporting standards.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Carlisle City Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Carlisle City Council. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council's financial statements that have been prepared by management with the oversight of those charged with governance the Audit committee; and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls;
- Valuation of land, buildings and investment properties;
- Fraud in expenditure recognition; and
- Valuation of the pension fund net liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £1.224m (PY £1.179m) for the Council, which equates to 1.9% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.061m (PY £0.059m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weaknesses.

Audit logistics

Our interim visit took place in March 2022 and our final visit will take place in July through to September/October 2022. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit is £69,733 (PY: £66,733) for the Council, subject to the Council delivering a good set of financial statements and working papers available at the start of the audit.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the Council's financial statements.

Significant risks identified

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.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	<p>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 Council faces external scrutiny of its spending in delivering services and this could potentially place management under pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the normal course of business as a significant risk for the Council, which was one of the most significant assessed risks for the Council.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting high risk unusual journals; • test 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; and • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Fraud in revenue and expenditure recognition (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. In addition, Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>These presumptions can be rebutted if the auditor concludes that there is no risk of material due to fraud relating to revenue and expenditure recognition.</p> <p>We have rebutted these presumed risks.</p>	<p>Having considered the risk factors set out in ISA (UK) 240 and Public Audit Forum Practice Note 10 and the nature of the revenue and expenditure streams at the Council, we have determined the risk of fraud arising from improper recognition can be rebutted due to:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue or expenditure recognition; • opportunities to manipulate revenue and expenditure recognition is limited; and • the culture and ethical frameworks of local authorities, including Carlisle City Council mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Carlisle City Council.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	<p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability (£52.532 million), represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • update 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; • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • test 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; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the Cumbria Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.
Valuation of land, buildings and investment properties	<p>The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 requires the revaluation of land and buildings should be performed with sufficient regularity to ensure that carrying amounts are not materially different from those that would be determined at the end of the reporting period. Investment Property carried at fair value should be revalued at each year end.</p> <p>These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to the changes in key assumptions.</p> <p>We therefore identified the valuation of land, buildings and investment property as a significant risk, which is one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work; • evaluate the competence, capabilities and objectivity of the valuation expert; • write to the valuer to confirm the basis on which the valuations were carried out; • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • test a sample of valuations at 31 March 2022 to understand the information and assumptions used in arriving at any revised valuations. • test revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year-end.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified three recommendations in our 2020/21 audit in relation to the Council's estimation process for valuation of land and buildings.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- valuations of land and buildings, council dwellings and investment properties;
- depreciation;
- year end provisions and accruals;
- credit loss and impairment allowances;
- valuation of defined benefit net pension fund liabilities;
- fair value estimates; and
- valuation of level 2 and level 3 investments.

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.



Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered 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 point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- what the assumptions and uncertainties are;
- how sensitive the assets and liabilities are to those assumptions, and why;
- the expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- an explanation of any changes made to past assumptions if the uncertainty is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have as a separate exercise to the audit plan that will be presented at Audit Committee. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540_Revised-December-2018_final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf)

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
 - giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
 - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
 - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
 - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £1.224million (PY £1.179m) for the Council, which equates to 1.9% of your gross expenditure for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.010million for Senior officer remuneration.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

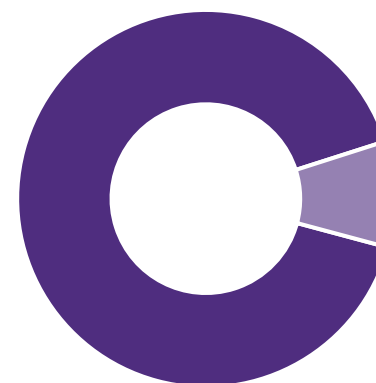
Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.061m (PY £0.059m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Prior year gross operating costs

£64.412m
(PY: £64.412m)



■ Prior year gross operating costs

Materiality

£1.224m
Council financial statements materiality
(PY: £1.179m)



£0.061m
Misstatements reported to the Audit Committee
(PY: £0.059m)

IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

We do not intend to rely on the operation of application controls whether automated / IT dependent and therefore we have carried our streamlined ITGC assessment on the IT systems that support the financial reporting. This is to gain an understanding of the design of these systems.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Civica Financials	Financial reporting	<ul style="list-style-type: none"> Streamlined ITGC design assessment

Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office (NAO) issued updated guidance for auditors in April 2020. The Code requires 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 three specified reporting criteria. These are as set out below:



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.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.



Audit logistics and team



Gareth Kelly, Key Audit Partner

Gareth will lead the engagement. He will direct the audit team, attend Audit and Assurance committees and be your first point of contact for any issue in relation to the audit process. He will be responsible for issuing our opinion on your financial statements.

Georgina Philp, Audit Manager

Georgina will be responsible for the management of the audit. She will supervise and co-ordinate the team and ensure our audit work is delivered to the agreed timetable. Georgina will meet regularly with the finance team to discuss audit issues

Hamza Mulla, Audit Incharge

Hamza will be responsible for the day to day delivery of our audit fieldwork. He will work with your finance team to ensure an efficient and quality audit is achieved.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of items for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees

In 2017, PSAA awarded a contract of audit for Carlisle City Council to begin with effect from 2018/19. The fee agreed in the contract was £41,033. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 10 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Due to the emerging financial reporting issue in relation to infrastructure assets, as detailed on page 5, this will require more audit time to respond to this issue. Our estimate is that for your audit, this will result in an increased fee of £2,500, which is line with other district audits. Our proposed work and fee for 2021/22, as set out below and is subject to agreement with the Corporate Director of Finance and Resources.

	Actual Fee 2019/20	Actual Fee 2020/21	Proposed fee 2021/22
Carlisle City Council Audit	£80,122	£66,733	£69,733
Total audit fees (excluding VAT)	£80,122	£66,733	£69,733

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

Commencing 1 November 2016, Grant Thornton UK LLP entered into a short-term tenancy lease for a small portion of the 7th floor of the Civic Centre, Carlisle. We have considered the ethical standards and any potential threats to our independence resulting from this arrangement. However, the nature of the lease arrangement between the Council and Grant Thornton UK LLP, and the sums involved, are clearly insignificant to either party.

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

We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

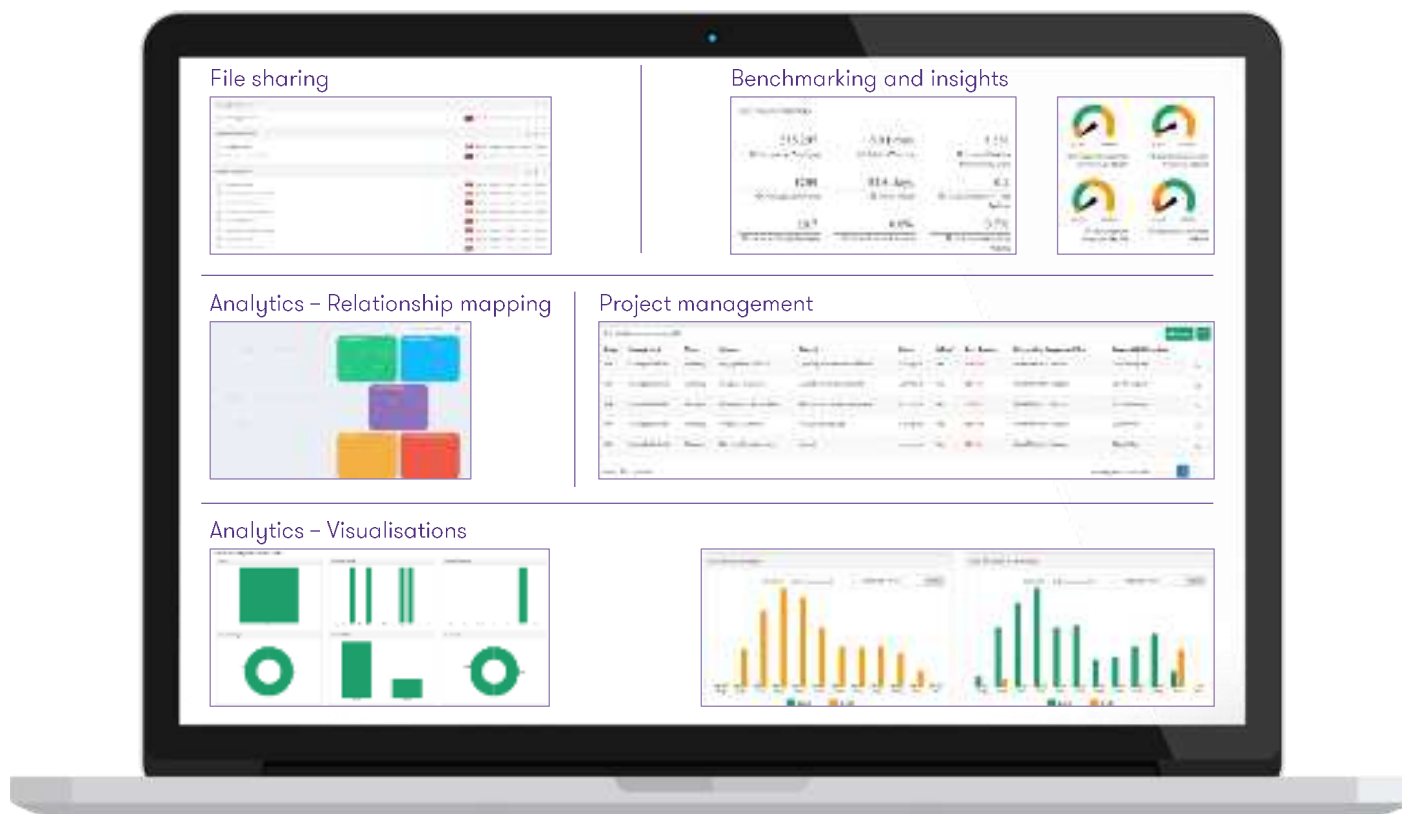
None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
	None		
Non-audit related			
CFO Insights Licence	5,000	Self-Interest	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £69,232 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:



Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data



File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work



Project management

- Facilitates oversight of requests
- Access to a live request list at all times



Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix 1: Progress against prior year audit recommendations

We identified the following issues in our 2020/21 audit of the Council's financial statements, which resulted in three recommendations being reported in our 2020/21 Audit Findings Report. The progress of these recommendation is outlined in the table below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
To be reviewed as part of the 2021-22 audit	Valuation Quality Assurance Process A small number of valuations included in investment properties required amending to include the impact of up to date information. 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.	A quality review of the asset register information held by both finance and property services was undertaken in 2021/22 to ensure information sent to the valuer was correct and up to date. A quality review process of the information received back has also been undertaken.
To be reviewed as part of the 2021-22 audit in progress	Lease Information We identified on lease in respect of Durranshill Industrial Estate was missed therefore investment properties were undervalued. Ensure all leases are complete and provided to the valuer in full for valuation purposes.	A review process has been undertaken to ensure that the correct lease information has been provided to the valuers.
To be reviewed as part of the 2021-22 audit	Heritage Asset valuation Heritage assets are valued using insurance valuation, however the last valuation was carried out in 2014. Ensure assets are valued in line with a five year programme.	The valuations of the fine arts element of the Tullie House collection was completed for insurance purposes in 2021/22 and the revised valuations will be reflected in 2021/22 accounts. This element made up over 80% of the overall value and comprised of nearly 5000 items. Further valuations of other elements of the collection are being undertaken in 2022/23.



Grant Thornton

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