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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

Grant Thornton

Initial Draft Interim Audit Findings Report for Carlisle City Council

Year ended 31 March 2020

As at 07 December 2020

Note the 2019-20 audit is still ongoing

Contents

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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 2020 for those charged with governance.

Covid-19	The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council . The finance team have had to adapt to working remotely and access the systems using remote access. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020	We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in April 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 7. Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely. We have used video calling to have regular meetings with finance staff and also confirm the accuracy of information produced by the entity. The accounts were provided to us on the 28 August 2020. The accounts were originally expected in July therefore we did need to re-schedule and re-assign team members. Working papers have been provided throughout the audit through our cloud based system we use called 'Inflo'.

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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 2020 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 the Council's 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), 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 from the end of September and remains ongoing. Our findings to date are summarised on pages 6 to 19. We have identified three adjustments to the financial statements, although these have not resulted in an 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 **not** complete but there are no matters of which we are aware that would require modification of our audit opinion, from our work completed to this date. The most significant outstanding area of work relates to the audit of land and buildings and investment properties. As a direct result of our audit challenges on the basis of valuations including assumptions and data sets used to determine the carrying value of the Council's asset base it has appointed a new external valuer to revalue material assets across the portfolio of asset categories. This includes the depreciated replacement cost basis of valuation on its specialist assets, existing use valuation of its operational assets as well as the fair value of its investment properties. We are unable to progress the audit at this stage until these revaluations are completed, the new valuation reports are provided to the Council, as planned for 18 December, and then the Council reflects on the impact, including if necessary appropriate changes to its fixed asset register and accounting entries in the accounts. Until this work is complete and we have undertaken our all of our property plant and equipment audit procedures all over again, as well as all our other final audit work as listed on page 6, we are not able to determine at this stage whether any material changes to the financial statements will be required. Subject to resolution of the asset valuation issues outlined above, our anticipated audit report opinion will be unqualified. However, it will include an Emphasis of Matter paragraph, highlighting property, plant and equipment and pension property valuation material uncertainties. This is in line with the national picture and does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year. A paragraph has been added to the Council's Estimation and uncertainties Note 4.2 to indicate this matter, which is now adequately disclosed in the Council's financial statements and we consider it is fundamental to a readers' understanding of the financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.

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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 2020 for those charged with governance.

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that Carlisle City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19. We therefore anticipate issuing an unqualified value for money conclusion. Our findings are summarised on pages 20 to 26.
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 have completed the majority of work under the Code and expect to be able to certify the completion of the audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

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Audit approach

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.

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 significant audit risks, as communicated to you in our audit plan on the 30 July 2020.

Conclusion

Our audit is ongoing, outstanding items include:

- re-performance and competition of audit work on the revaluation of operational and investment property assets once we have received the responses for the revised valuations;
- completion of a number of outstanding audit procedures following responses from officers including, review of the NDR appeals provision, finalising our work on the collection fund, existence testing for Heritage assets, completion of pension net liability work, related party transactions and financial instruments;
- overall review by manager and engagement lead;
- receipt of management representation letter; and
- review of the final set of financial statements and subsequent procedures.

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 audit plan.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,155,000	• This equates to 1.9% of your gross operating expenditure for 2018/19 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	808,500	• Based on 70% of materiality derived from the risk of misstatement
Trivial matters	57,750	• Based on a 5% of materiality
Materiality for Senior Officers Remuneration	5,000	• Due to the sensitive nature of the disclosure

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; - Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement	We: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 28th August 2020; • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. The results of our work concluded that appropriate arrangements have been put in place to manage the Covid-19 situation and suitable disclosures have been made in the financial statements. We were able to obtain sufficient audit evidence by utilising screensharing for the verification of completeness and accuracy of information produced by the Council, and share information through our cloud based software. Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with VPGA 10 of the RICS Red Book Global). Your amended accounts have disclosed this material uncertainty within note 4.2. Similarly, there is also an impact of Covid-19 on the valuation of Cumbria Local Government Pension Scheme's direct property investments and investments in unquoted property funds. The note states that fair value measurement of these investments at 31 March 2020 is subject to a material valuation uncertainty (issued in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards). We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty. There are no other findings in respect of this significant risk.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
The revenue cycle includes fraudulent transactions - Rebutted Under ISA (UK) 240 there is a rebuttable presumed risk that revenue 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 ISA240 and the nature of the revenue streams at the Authority, 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, means that all forms of fraud are seen as unacceptable.	We rebutted this risk in our Audit Plan and no changes to our assessment have been reported in the audit plan.

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Significant audit risks

Risks identified in our Audit Plan	Auditor 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 Council 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, which was one of the most significant assessed risks of material misstatement.	We; • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined 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 • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work has not identified any issues in respect of management override of controls to date.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of land, buildings and investment property The Authority revalues its land, buildings and investment property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets and investment property) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved at £117 million, and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2020. We therefore identified valuation of land, buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's valuation of land, buildings and investment property is not materially misstated and evaluate the design of the associated controls • evaluated management's 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 • discussed with the valuer 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, the Authority's valuer's report and the assumptions that underpin the valuation • evaluated the appropriateness, completeness and accuracy of the inputs used by the valuer in asset valuations, on a sample basis • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Authority's asset register • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different Management had not identified the material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic reported by their expert valuer as a significant issue. The statements were amended to include this disclosure in Note 3 to the financial statements. Our testing identified that the Council's Asset Under Construction included one item of £1,678,000 relating to an investment property. This asset relates to Gateway 44 Development and should be classified as an Investment Property. The reclassification does not impact on the amount carried in the balance sheet. As part of our detailed testing of asset revaluations, we challenged the approach taken by the valuer. In particular, we raised queries over the valuation of specialised assets on Depreciated Replacement Cost (DRC) basis. Our queries included: • the use of insurance valuations as a starting point for the DRC exercise • the use of RPI indices to update insurance valuations • whether land value had been properly recognised in the valuations • discounting of value for unexpired term of leases As a result of this challenge the Council are completing further work on the asset base as a whole and have engaged a new valuer to complete valuations on assets valued on a DRC basis as well as a sample of operational assets and investment properties. Once the valuations have been received we will need to complete the above steps again on the new valuer.

Significant audit risks

Risks identified in our Audit Plan	Auditor commentary
Valuation of pension fund net liability The Authority'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 at £40.13 million in the Authority's balance sheet as at March 2019 and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We; • 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 - Mercers) 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; • agreed any advance payment made to the pension fund during the year to the expected accounting treatment and relevant financial disclosures; and • obtained assurances from the auditor of Cumbria Local Government Pension Fund Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The Pension Fund Auditor has included an emphasis of matter in the audit report drawing attention to a material valuation uncertainty relating to the Fund's real estate portfolio. In respect of the effects of Covid-19 on the valuation of property investments, this impacts both direct property and indirect pooled property funds. The Council has included additional disclosures within the financial statements and we have concluded an Emphasis of Matter in our opinion in relation to these findings. Our audit work identified some disclosure issues which have been amended, and has not identified any further issues in respect of valuation of the net pension liability.

Significant findings – other issues

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 control deficiencies identified during the year.

Issue	Commentary
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	Note 4.1 makes brief reference to IFRS16. We are satisfied that your disclosure is consistent with the requirements of IAS 8.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals- £1.7m	The Council is liable for successful appeals against business rates charged to business in 2019/20 and earlier financial years in their proportionate share. A provision has therefore been made for the best estimate of the amount that businesses have been overcharged up to 31 March 2020. The estimate has been calculated using the latest Valuation Office Agency (VOA) ratings list of appeals and the analysis of successful appeals to date. The provision has increased by £373,000 in 2019/20.	• Our audit work in this area is still outstanding. At the time of writing we are waiting for responses to our queries.	**TBC**

Assessment

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

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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other and Investment Property - £112.16.m	Other land and buildings comprises £17.097m of specialised assets including 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 (£15.158m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. Investment Property includes the Lanes Shopping Centre and Kingstown Industrial Estate and has been valued at £79.905m. The Council has engaged Carigiet Cowen to complete the valuation of properties as at 31 March 2020. All assets are revalued annually. Due to the profile of the portfolio of Council's assets, management do not deem it appropriate to value on an alternative basis. The assets valued on a DRC basis are sufficiently specialised that an alternate use would not be commercially viable for a prospective purchaser and there is little evidence of an active market for these assets to be able to value on an EUV basis. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council, however, made no reference to this in the financial statements. The valuation of properties valued by the valuer has resulted in a net increase of £2.480m for Other Land and Building and a net decrease of £2.336m for Investment Property.	• We have evaluated the competence, capabilities and objectivity of the valuation expert used by the Council. • The valuer has agreed clear terms of reference for this work with the Council in advance of the work being performed, including the assumptions that were going to be applied to this work. • There have been no changes to the valuation methods this year. • We have reviewed and are satisfied with the completeness and accuracy of the information provided to the valuer to determine the estimate • We have reviewed the assumptions applied by the Valuer to the valuation performed, and have raised questions on the basis of these valuations. See page 10 of this report where our concerns on the valuations have been explained in further detail. To address the concerns we have raised the Council has instructed another new external valuation firm to complete a sample of valuations. This work is ongoing and once the report has been received we will re- perform and complete our work in this area.	**TBC**

Assessment

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

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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £47.322m	The Council's net pension liability at 31 March 2020 is £47.322m (PY £40.124m) comprising the Cumbria Local Government Pension Scheme 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. The Council's actuary disclosed a material uncertainty in the valuation of the Council's pension fund liability at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 4.2. The latest full actuarial valuation was completed as at March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy ,discount rates ,salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £6.964m net actuarial gain during 2019/20.	See auditor commentary below	

Auditor commentary

In understanding how management have calculated the estimate of the net pension liability we have:

- assessed the use of a management's expert actuary (Mercers)
- assessed the actuary's roll forward approach taken
- used PwC as an auditor's expert to assess the actuary's approach and assumptions made by the actuary (see the table below)

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4%	2.3% - 2.4%	
Pension increase rate	2.1%	2.1%	
Salary growth	3.6%	3.35% - 3.6%	
Life expectancy – Males currently aged 45 / 65	24.2/ 22.6	22.5 - 24.7/ 20.9 - 23.2	
Life expectancy – Females currently aged 45 / 65	27.1/ 25.2	25.9 - 27.7/ 24.0 - 25.8	

- assessed the completeness and accuracy of the underlying information used to determine the estimate
- impact of any changes to valuation method
- undertook a reasonableness test of the Council's share of LGPS pension assets
- assessed the reasonableness of the movement in the estimate
- assessed the adequacy of disclosure of estimate in the financial statements.

Our own independent expert has also confirmed that they are comfortable that the assumptions used by Mercers are reasonable for the purpose of valuing the liabilities at 31 March 2020. We are satisfied that the estimate of your net pension liability is not materially misstated.

Assessment

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

Significant findings – 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
The most significant events that occurred during the year was the Covid-19 pandemic.	During the year we have considered the challenges arising from Covid-19. We are satisfied that management responded swiftly and appropriately to the challenges of Covid-19.
Business conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement	The Council's external valuation expert, Carigiet Cowen has raised a material uncertainty regarding how the impact of Covid-19 on market conditions may affect land and buildings valuations during 2020/21. The Council's amended accounts post audit include this disclosure.
Concerns about management's consultations with other accountants on accounting or auditing matters	Our work on the revaluation of land and buildings identified significant concerns on the revaluation methods use. We have raised these significant concerns with the Council. The Council has instructed a new external valuer to undertake revaluation work on its material asset base and to conduct a sample of remaining valuations to assist it in determining whether the carrying value of assets is not materially different from its current and fair value.
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No disagreements with management occurred during the audit.
Other matters that are significant to the oversight of the financial reporting process,	None to report

Significant findings – going concern

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).

Going concern commentary	Auditor commentary
Management's assessment process Management has provided • cash flow for the period ended 30 January 2022 • rationale for judgements and assumptions taken.	• The Council's use of the going concern basis of accounting is appropriate. • The Council's going concern assessment is supported by its updated 2020/21 budget. The Council has updated its 2020-21 budget to reflect the impact of Covid 19 and has set a balanced budget. • The Council's general fund balance is budgeted to be £3.063 million at 31 March 2021, in line with minimum balance of £3.1 million. Earmarked reserves are budgeted to be £3.041 million at 31 March 2021 and the MTFP does not assume any use of earmarked reserves beyond 2020/21. • The Council expects to remain under-borrowed against its Capital Financing Requirement through to 31 March 2021. • The Council has a strong Cash and Short Term Investment position. At 10 November, balances were £13.9m. On audit request the Council has prepared a forecast to support its Going Concern assessment through to 30 January 2022.
Work performed Management has provided us with a written assessment of going concern, which we have reviewed in conjunction with cash flow forecasts and the MTFS.	Our work included: • determining whether the conclusions made by the management regarding the decision not to disclose any going concern material uncertainties in the financial statements were prudent and appropriate; • we have reviewed management's assessment in the light of the Council's position and the national context and assessed the underlying assumptions used to support management's preparation of the accounts on a going concern basis; • reviewing cash flow forecasts up to January 2022 to assess the existence of any material uncertainties related to going concern.
Concluding comments	Based on the audit work performed over the going concern assumption adopted by management, we are satisfied that it remains appropriate for the Council to prepare accounts on a going concern basis as at 31 March 2020. The Council has a reasonable expectation that the services they provide will continue for the foreseeable future. For this reason we consider it appropriate for the entity to continue to adopt the going concern basis in preparing the financial statements. We do not consider there to be a material uncertainty, which would cast doubt on the ability of the entity to continue as a going concern.

Other matters for communication

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	Auditor 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 from our work to date.
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 will be requested from the Council, which will be included in future Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the bank, investment bodies and long term debtors. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management are being provided. Our audit identified some delays with the audit evidence provided with the financial statements, which has resulted in the audit taking longer to complete than in previous years. However, we acknowledge the challenging circumstances with the remote working environment and software reporting issues. This coupled with the significant matters on the basis of valuations highlighted earlier explains why we have not been able to meet the audit deadline of 30 November 2020.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified post audit adjustments as minor changes have been adequately rectified by management. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Detailed work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to certify the closure of the 2019/20 audit of Carlisle City Council in the audit report opinion.

Value for Money

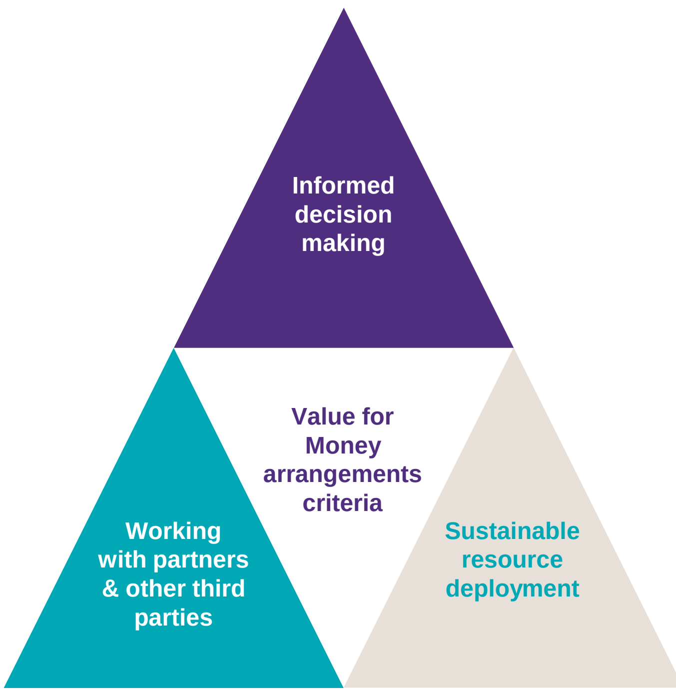
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

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

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We have not identified any new VfM risks in relation to Covid-19, We do not consider Covid-19 to be a significant risk given the start of the pandemic was towards the financial year-end.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

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Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council’s financial sustainability

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 22 to 26.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk

Financial Resilience and Sustainability

The Council's MTFP is predicated on delivering changes to the way in which services are delivered. The Council has identified proposals for reducing spending and increasing efficiency. The programme includes a number of key projects, such as internally reshaping the Council.
The Council continues to face a challenging environment in the medium term. The MTFP 2020/21 to 2024/25 from January 2020 shows a savings requirement of nil in 2020/21, £1m in 2021/22 and then increasing to £1.850m in 2023/24. The Council is reviewing how it works as a result to identify areas of potential savings or revenue generation.
There are considerable uncertainties over various revenue streams in the medium term due to the fair funding review outcome, investment property income and the uncertainty around the future of the Business Rates Retention Scheme. As a result the Council has to apply a number of estimates and key judgements to compile the MTFP.
The Council also has large-scale capital projects, commencing in 2019/20 which require significant levels of borrowing to fund their completion.

Audit response

This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.
We will review the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Executive and Full Council.
We will review the sensitivity analysis and scenario planning undertaken by the Council, which support the estimates and judgements made in the MTFP

Findings:

The arrangements the Council has in place to compile the MTFP

The Council maintains a comprehensive approach to compile its Medium Term Financial Plan (MTFP). This adopts the core principles of the Council as outlined in the Carlisle Plan to prioritise the allocation of resources to best meet their key aims and objectives. A detailed budget timetable is in place and a budget pack guidance goes out in September to each budget holder.

The Councils current MTFP covers the period from 2021/22 to 2025/26 and to complete this the budget holders are given various principles to apply to the MTFP, including:

- a pay award of 2% and inflation of 2% on expenditure and 3% for income, as well as these assumptions the Council has also factored in the reduction in funding of £1.5m from Business Rates
- Commercial and income generation where the Council currently generates income from fees and charges of £5m, and expects to outline proposals to increase income by 3%
- Council Tax and Business Rate assumptions include an increase of Council Tax and Business Rate Retention
- Treasury management assumptions which include the rate for refinancing the stock issue and an assumption of the average return assumed at 1.2%
- Capital investment assumptions which confirms the current capital program is forecast to utilise all capital receipts and approved borrowing requirements.

Value for Money

Significant risk (cont)

Budget holders are required to set out the objectives of each charge it proposes to set. There are a number of factors which they are required to review when determining the amount to charge and also ensure relevant concessions are factored in. Finally, a review is completed to confirm the Council are maintaining value for money.

The 3% of increase in income is a challenge, as you will note the 2019/20 budget outturn review identified a number of key areas where the service did not perform as expected due to a reduction in income therefore we recommend the Council reviews this assumption to ensure it is realistic, especially in the current context..

The Council were waiting on the Comprehensive Spending Review 2020 to make changes to various services and staffing, but this has now been deferred until 2021. As the Council has been given a 1-year settlement for 2021/22 this increases the uncertainties in the MTFP. As well as this the Council will be affected by the Governments decision to pause the 75% Business Rate Retention Scheme. The impact of this has been included in the current MTFP.

How is the Council identifying, managing and monitoring financial information to regularly update the MTFP?

The original budget for 2019/20 was £14.259m, which was financed from by £1.2m from reserves and £13m grants. This was then revised to £16.6m which was financed using £2.9m from reserves and £13.7m grants. The actual spend was £14.2m using only £11,000 from reserves and the remaining £14.2m from grants. Instead of using £1.5m general fund reserves the Council put in £1.4m. The Council's budget report showed a net underspend of £2m of which £811,000 was carried forward to 2020/21 and £1.5m transferred to reserves. Of the amount carried forward £0.5m relates to released general fund reserves for COVID costs.

A number of underspends were identified and additional rental income was achieved at the Enterprise Centre, a net underspend in Bereavement Services due to increased cremation fee income which may be due to COVID-19. However, COVID 19 has also been the cause of a shortfall in car park income and other income streams. There was also an overspend in Leisure contract due to a variation to contract agreed on the approval of Sand Centre development. Going forward the Council needs to ensure budgets are more realistic setting out various scenarios more accurately to allow for better informed decision making and sustainable resource deployment. COVID will also impact on the income received and this needs to be continually reassessed and reflected as well.

COVID-19 has had minimum impact on the financial position as at 31st March 2020. However, emergency funding of £1.807m has been received to support Council services in 2020/21 to support additional expenditure and loss of income. Monthly returns are being submitted to the MHCLG to identify potential costs, with the expectation that further funding will be made available to local authorities. Early indications are that the estimated full year costs of COVID-19 equates to approximately £3.7m, while any loss of income from Business Rates and Council Tax will add to this sum. Again this is an ever changing position which requires very close monitoring.

The impact on COVID-19 on the Council's resources is one of the greatest risk to ensuring that the Medium-Term Financial Plan is able to support service delivery whilst ensuring that reserves are maintained. Looking into Q1 2020/21 revenue budget monitoring shows out of the annual budget of £16.7m the Council has spent £4.4m which equates to 27%. Although the budget to date was just short of £5m, this indicates an underspend of £0.5m.

Sensitivity analysis

The medium-term financial plan includes an assumptions section where it provides various assumptions regarding the main items of income and expenditure and a sensitivity analysis is completed for each assumption. The likelihood of change is given a risk rating of high, medium and low and the amount of the impact is provided as a guide. These assumptions include, pay award and pension contributions, inflation increases for both expenditure and income as well as investment returns and the property fund and borrowing rates.

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Significant risk (cont)

A review of the Councils reserves and provisions is undertaken to show each purpose and to monitor usage and ongoing need for related balances. The table below shows the movement on reserves position which shows a gradual decline in both usable General Fund Reserves and earmarked reserves since 2017/18, with a large amount of reserves being utilised to fund the 2020/21 budget. The Council MTFP assumes no significant use of reserves beyond 2020/21.

	2017/18	2018/19	2019/20	2020/21 Budget	2021/22 Budget	2022/23 Budget
General Fund in C/f reserve	5,700	4,630	4,661	2,431	2,180	2,241
Earmarked Reserves including Capital	6,232	5,540	5,487	3,244	3,259	3,274

Whilst preparing the 2020/21 budget the Council was able to re-profile the savings target for 2020/21 of £1.13m to 2021/22. As the Fair Funding and Business Rate Retention Scheme Reviews were both deferred, which in turn enabled the County Wide Business Rates Pooling arrangements to continue for a further year into 2020/21, with a resulting £1.5m of income being factored into the budget albeit on a non-recurring basis.

The savings target for 2021/22 is now £1m with a further £0.850m from 2023/24. The savings strategy covers 3 main strands, asset strategy, service reviews and core budgets.

Reporting

The budget process begins in November of each year for the following year, so in November 2019 the 2020/21 Budget Process began. The Executive members receive the budget book, which is then discussed at individual committees. This included the Health and Wellbeing Scrutiny Panel, Economic Growth Scrutiny Panel and the Business and Transformation Scrutiny Panel. Feedback from these Panels are taken to the Executive Committee in December. There is then a formal consultation with public, trade unions, large employers, consultation with staff and advertising in the newspaper. The final budget is then approved by the Council in February, where there is still an opportunity to request changes. The Council regularly review budgets and reports to Executive each quarter prior to a detailed discussion at each committee.

The Council aims to use its assets to generate income to support the Council's revenue budget. Therefore, they are borrowing against these assets to generate revenue income in the future. However, they do need to ensure these costs are realistic and achievable. The Council has a number of key capital projects in place, including the Sands Centre where the scheme was originally budgeted to cost £14.5m and then increased to £25.5m in June 2019, with a more recent reprofile in October 2020 bringing the budgeted spend to £27.2m. Additional funding to fund part of this has be achieved from Sports England and a NHS Contribution being received due to the wider health and well-being benefits the project will bring. The Council has also requested additional funding from the Government as part of the emergency action fund as this helps with enhancing well-being and tackling obesity priorities. Remaining costs will need to be funded by the Council.

Value for Money

Significant risk (cont)

Another of the capital projects is Gateway 44, has also suffered delays due to COVID 19 and has had an impact on the planned occupation of the units. Although the Council is hoping to accommodate the remaining units as this is for bulky goods and not High Street the Council has had to reduce the rent per square metre, but is still expected to make a positive return. This may lead to a projected shortfall in income, which is still to be finalised and formally reported at this time.

As per previous VFM recommendations the Council continues to look at the costing of projects to ensure they are realistic reflecting the true costs and include built in contingencies. This will allow the Council to have a true picture of each option to ensure it offers value for money for the Council.

The Council's current capital commitments and related borrowing is significant. As at the 31/03/20 the Council was towards the top limit of its Treasury borrowing limits, with £28.8m of committed borrowing against an operational boundary limit of £39.1m. The Council did repay the £15m loan stock in May 2020 using additional borrowing made in 2019/20 of £14m. The Council is still looking to borrow further in the current year, in particular, for the Sands Centre.

The additional costs due to the pandemic are submitted to government through regular returns. This records additional expenditure the Council have had to undergo as well lost fees and charges income. However, current COVID 19 related funding and support is silent on the reimbursement for any losses of commercial income, which could also have a significant impact on the Councils budget position. The Council has received funding to cover some of these costs. The full-year impact for 2020/21 is still to be assessed with initial estimates indicating a potential annual cost of up to £3.7million. This excludes the impact of any cost savings or additional income generated which should be netted off this figure and doesn't reflect any receipt of any compensation payment for losses of Sales, Fees and Charges, nor does it reflect the impact on the Collection Fund. If this funding is not received in line with expectations this will have a detrimental impact on the Council's usable reserves.

During the year the Council also took part in a peer review, which is made up of various representatives from other councils and the Local Government Association. They have five questions which form core components. These include understanding the local place and priority setting, leadership of place, organizational leadership and governance, financial planning and viability and capacity to deliver. The Council also asked the team to provide observations on the Council's approach to commercialisation and effectiveness of performance management arrangements.

The feedback from the peer review confirmed the Council had a stable and experienced management and workforce with both political and managerial leadership being well regarded within the Council and externally. The Council has a healthy financial position with a strong property asset base which generates an income stream contributing around £4.3 million per annum to the net revenue account. However, the next step is to realign existing funding to a clear set of priorities to ensure the best use is made of the Council's resources. The review highlighted ten key recommendations to the Council which it has accepted and has plans in place to meet it. Each recommendation has a member of the senior management team allocated and a target date to meet the recommendations. These are all expected to be met by April 2022.

Value for Money

Significant risk (cont)

Conclusion

Based on the arrangements the Council has in place during 2019/20 we conclude that there are appropriate arrangements in place for the reporting and monitoring of the medium-term financial plan. However, the Council needs to review the:

Arrangements for costing current and future major capital projects to ensure they are realistic and carry sufficient contingency plans.

Ensure the MTFP assumptions are realistic especially with the current climate going forward and look to fine tune its sensitivity analysis and assumptions. Well established savings plans should be identified at the offset to avoid identifying back ended saving programmes.

The Council should monitor the run rate of usable reserves to ensure reserves are maintained at a reasonable level

Capital overruns should be managed closely as there is limited headroom for additional borrowing.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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.

Independence and ethics

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit service was identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Non-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 planned fee for the audit of £51,033 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 fees have not been reflected in the accounts because of the timing of CFO Insights The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

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.

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Action plan

We have identified 4 of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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
● High	**Revaluations** We identified significant concerns with the approach used to calculate DRC revaluations by the valuer.	Complete a quality assurance check on valuations to ensure the basis of valuation is appropriate and that the related revaluations key assumptions and data sets used are reasonable. **Management response** The Council will review its process for the appointment of external valuers to support the valuation process. This will include using sector specific valuers for different assets in the portfolio to ensure valuations are as accurate as possible and that the correct bases are used.
● Medium	**Capital Projects** 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.	Arrangements for costing current and future major capital projects need to be improved to ensure they are realistic and carry sufficient contingency plans. Capital costs need to be closely managed to keep additional borrowing to a minimum and to avoid breaching treasury management limits. **Management response** Capital schemes are monitored closely and option appraisals carried out to ensure the schemes offer value for money and affordability. The Sands scheme, although increasing in cost, was measured against the original aspiration of maintaining any borrowing costs within the subsidy saving achieved in the new leisure contract awarded in 2017.
● Medium	**Run Rate** A review of the Councils 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.	Monitor the run rate on usable reserves to ensure general fund unearmarked reserves are maintained at a reasonable level. **Management response** The Council monitors reserve levels at budget and outturns and ensures that where reserves are used in the short term, that there is a longer term plan to achieve minimum levels. The Council has a history of being underspent at year-end meaning that reserves are often higher than planned when budgets are set.
● Medium	**Medium Term Financial Plan** The medium term financial plan includes various assumptions which includes an increase of income over inflation. As the Council is heavily exposed to reliance on investment income to deliver its financial objectives, the impact on future revenue streams needs very close monitoring and management to maintain the Council's financial health.	Carry out a detailed sensitivity analysis around the key uncertainties and assumptions included in future budget outturns and revisions to the MTFP to assist agile financial management to secure the Council's medium term financial sustainability, in the light of the uncertain context for Local Government. **Management response** Income budgets have been thoroughly reviewed at the budget setting process for 2020/21 and continue to be monitored closely as part of the budget monitoring process.

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Council's 2018/19 financial statements, which resulted in [x] recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and management are making progress but further ongoing work is required.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	There is a savings gap in the MTFP of £1.242m. General fund balances have fallen by 19% from £5.7m at 31 March 2018 to £4.6m at 31 March 2019. Overall usable reserves have fallen by 15% from £12.1m to £10.3m as at 31 March 2019.	Work is progressing on the base budget review and the overall savings target to identify £1million of savings for 2021/22. Reports will be represented to SMT and Members as part of the 2021/22 budget process. A commercialisation Strategy will be developed, a recommendation from the recent Peer Challenge and BTSP will provide support in the shape of a Task & Finish Group.
Partial	There has been a significant increase in the capital cost of the Sands Centre redevelopment. The total cost of the Sands Centre redevelopment project has increased from an initial £14.2 million then £20.122 million to £27.2 million.	Further reports have been considered by the Executive with a final report approved by full Council (Special 13th October 2020) which approved the project and increased funding required scheme after considering potential additional costs including the impact of COVID-19. This also included a further analysis to ensure that the project continued to be financially viable and was supported by an update Business case including the impact on treasury management projections. This is now reflected in the MTFP, which also provides a sensitivity analysis on the main items of Council income and expenditure. Detailed reports and business cases continue to be considered for major capital schemes; with monitoring of progress forming part of the quarterly monitoring process
Partial	The Council is involved in significant capital projects relating to the Sand Centre, Gateway 44 and the Southern link road, which require significant external borrowing.	These are kept under review as part of the Capital Investment Plan, TMSS and quarterly treasury management reporting. Forward balance sheets have been reviewed with the Council's Treasury Advisors to understand future borrowing requirements based upon market conditions, and in accordance with its capital programme and agreed borrowing limits.

Assessment

✓ Action completed

X Not yet addressed

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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
Construction costs of £1,678,000 relating to the Gateway 44 Development were included as Assets Under Construction within the Property Plant and Equipment (PPE) balance. The Code specifies that when assets are being constructed as investment properties they should be held within the Investment Property balance. The statements were amended to reclassify £1,678,000 from PPE to Investment Property. Disclosure amendments have also been made to Note 4.26 (Property Plant and Equipment) and 4.28 (Investment Property).	Nil	1,678 Investment Property (1,678) Property, Plant and Equipment	Nil
Land at Greymoorhill was disposed of in 2019/20 for £3,256,000. Of this total sum, £1,628,000 was not received by the Council until 2020/21. The Council incorrectly treated this £1,628,000 as a usable capital receipt and applied it against capital expenditure in 2019/20. The statements were amended to treat £1,628,000 correctly as a deferred capital receipt. Disclosure amendments have also been made to Note 4.4 (Adjustments between accounting basis and funding basis under Regulations) and Note 4.40 (Capital Expenditure and Capital Financing).	Nil	1,628 Capital Adjustment Account (1,628) Deferred Capital Receipts	Nil
The Council incorrectly included £7m as short term investments, as it is in 31 day access accounts. Therefore, as it is accessible within 3 months it should be included as cash and cash equivalents.	Nil	(7,000) Short Term Investments 7,000 Cash and Cash Equivalents	Nil
Overall impact	**£0**	**£0**	**£0**

Audit adjustments

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.

Area	Account Balance	Adjusted
Note 4.26b Capital Commitments	The Note was amended to disclose capital commitments of £1,712,000 in respect of Sands Centre redevelopment.	✓
Note 4.2 Critical judgements in applying Accounting Policies	Additional disclosure has been added to reflect mater estimation uncertainty on property revaluations. Pensions liability narrative updated to reflect pension property fund valuation material uncertainty as disclosed within Cumbria LGPS's financial statements.	✓
Note 4.26 Property, plant and equipment	Amendments were made to Dwellings & Other Buildings to show the rate as 10 – 50 years and Intangible Assets where the rate should be 5 years.	✓
Note 4.18 Officers' Remuneration	A disclosure was included in the incorrect banding. The accounts have been amended £90,000-94,999 band to £80,000-84,999	✓
Note 4.41 Disclosure of Net Pension Assets/Liabilities	Additional narrative added to refer to the latest triennial valuations and revise market commentary.	✓
Collection Fund Statement – Council Tax	The collection fund was amended to separately disclose the contribution towards prior year surplus. Other minor misclassification errors were also corrected.	✓
Note 5.2 Notes on the Collection Fund	Council tax base table was amended to agree to the council tax setting report to Council in March 2019.	✓

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	51,033	TBC
Total audit fees (excluding VAT)	**51,033**	**TBC**

The final audit fees cannot be determined at this stage as a result of the matters raised earlier in this report. However, the Council can expect fees to be significantly more than the revised planned fees as we have had substantial additional time being charged to the audit through a combination of a rescheduled start to the audit and our audit on property Plant and Equipment and Investment Property will require full re-performance.

The fees disclosed in the financial statements include £4,500 in relation to the 2018/19 Audit as well as an audit rebate from Public Sector Audit Appointments of £3,780.

Non-audit fees for other services	Proposed fee	Final fee
Non- Audit Related Services – CFO Insights Licence	5,000	5,000
Total non- audit fees (excluding VAT)	**£5,000**	**£5,000**

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Audit opinion

We anticipate we will provide the Council with an unmodified audit report

Not in a position to provide a draft audit report opinion at this time