



The Annual Audit Letter for Allerdale Borough Council

Year ended 31 March 2019

18 August 2019



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Your key Grant Thornton team members are:

John Farrar

Engagement Lead

T: 0161 234 6384 or 07880 456200

E: john.farrar@uk.gt.com

Angela Pieri

Engagement Manager

T: 0141 223 0887 or 07920 813338

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

Fay Hutchinson

In-charge auditor

T: 0161 953 6954

E: fay.a.hutchinson@uk.gt.com

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Allerdale Borough Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 30 July 2019

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £895,000, which is 1.75% of the group's gross operating expenditure.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 30 July 2019.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 July 2019.
Certificate	We certified that we have completed the audit of the financial statements of Allerdale Borough Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

Working with the Council

During the year we have delivered a number of successful outcomes with you:

- An efficient audit – we delivered an efficient audit with you in June and July, delivering the financial statements by the statutory deadline.
- Sharing our insight – we provided regular audit committee updates covering best practice. We also shared our thought leadership reports.

Respective responsibilities

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

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

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

- Providing training – we provided your teams with access to a local government financial reporting and annual reporting workshop.
- Supporting development – we participated in the workshop to the Audit Committee on the role of external audit.

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

Audit of the Financial Statements

Our audit approach

Materiality

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

We determined materiality for the audit of the group financial statements to be £895,000, which is 1.75% of the group's gross operating expenditure. We determined materiality for the audit of the Council's financial statements to be £894,000, which is 1.75% of the Council's gross operating expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officers remuneration at £12,000.

We set a lower threshold of £44,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

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

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

We also read the remainder of the financial statements and the narrative report and annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements included in the Annual Report on which we gave our opinion.

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

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

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

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <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.</p> <p>We identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> 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; and evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 	<p>Our audit work has not identified any instances of management override of controls.</p>
<p>Valuation of land and buildings and investment property</p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. Investment properties are revalued annually.</p> <p>These valuations represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings and investment property revaluations and impairments, as a significant risk.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to 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 valuation was carried out; challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements; and evaluated the assumptions made 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. 	<p>Our audit work confirmed that revaluations were carried out by an appropriate external expert. We were satisfied that the value of land and buildings not revalued during the year was not materially different to their reported value at 31 March 2019.</p> <p>No issues were found with the revaluation of land and buildings and investment properties.</p>

Audit of the Financial Statements

Significant Audit Risks

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

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>This valuation represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of the Council's pension fund net liability as a significant risk.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessed the accuracy and completeness of the information provided by the Council 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; and • 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. <p>The Council updated their estimate of the IAS pension fund liability due to the outcome of the national ruling on the McCloud case which ruled that there was age discrimination in the judges and firefighters pension schemes. There is an implication for pension schemes where they have implemented transitional arrangements on changing benefits which includes the Local Government Pension Scheme (LGPS). The increase in the net liability was £139,000 and as this was below materiality the Council did not adjust their financial statements.</p>	<p>Our audit work identified one issue in relation to liability for the McCloud judgement. Management did not adjust this in the financial statements as it was not material at £139,000. This did not impact upon our opinion on the financial statements.</p> <p>We did not identify any other issues in respect of the valuation of the pension fund net liability or with the associated disclosure notes within the financial statements.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 30 July 2019.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 30 July 2019.

There was one unadjusted misstatement for £139,000 for the outcome of the McCloud case, with the decision to not adjust not impacting upon our audit opinion.

Other audit adjustments identified were to disclosure notes only and all have been amended by management in the final set of financial statements.

Annual Governance Statement and Narrative Report

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

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. Minor changes were identified to enhance existing disclosure within the Annual Governance Statement and these were adjusted by management in the final version.

We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

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

We have not had to use any of these other powers.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Allerdale Borough Council in accordance with the requirements of the Code of Audit Practice on 30 July 2019.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

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

The risks we identified and the work we performed are set out overleaf.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>At the planning stage of the audit we noted that the Council's MTFP for 2018/19 to 2021/22 from November 2018 had a £0.141 million unidentified budget gap for 2019/20, with £2.415 million for 2020/21 and £2.664 million for 2021/22.</p> <p>Even though the Council has a good record of delivering savings, the unprecedented level of savings required over the remaining period of the MTFP, on top of self-sufficiency savings, represents a significant challenge.</p>	<p>Our work in this area reviewed the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We also considered the arrangements in place to monitor the identification and delivery of savings.</p> <p>As part of the annual budget setting process, the Council's s151 officer provides an assessment of the adequacy of balances and reasonableness of assumptions and estimates used to produce the budget. The MTFP is reviewed on an ongoing basis with the updated MTFP formally reported to members in November 2018 and again in February 2019 as part of the annual Council tax setting process. The MTFP projections, reported in February 2019, for 2019/20 to 2021/22 showed a £2.33 million funding gap in 2020/21 and £2.673 million in 2021/22.</p> <p>In response, officers have identified over £3 million in potential savings from the transformation and commercial programme. The identified items cover service reviews, service changes, new ways of working, commercialisation, regeneration and investment opportunities. The potential savings would be subject to Council scrutiny in relation to the approval of savings business cases and appropriate consultation.</p> <p>When setting the 2018/19 budget in March 2018 the Council identified the need to deliver self sufficiency savings of £0.422 million. The required savings were built into the revenue budget and regularly monitored through the normal budget monitoring process within the Council. Any issues identified were considered and corrective action taken, or alternative savings identified. Reports to Executive during the course of the year including the outturn report could include a bespoke section on savings, as current reporting does not regularly report the progress with savings separately.</p> <p>The Council achieved an underspend in 2018/19 of £0.376 million in net expenditure. At the 31 March 2019 total available general reserves were £7.358 million (GF balance of £3.891 million and Earmarked reserves of £3.467 million). When the 2019/20 budget was agreed on 6 March 2019 £0.372 million in reserves was identified for use during 2019/20.</p>	<p>The Council has put in place arrangements to monitor and update its financial plans including the delivery of the required savings.</p> <p>Based on this we are able to conclude that that the Council has in place proper arrangements during 2018/19 for ensuring they plan finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost information to support informed decision making</p>

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Major re-procurement exercise</p> <p>During 2018/19, the Council completed a major procurement to retender for the provision of refuse, recycling, street cleansing and grounds maintenance services. The existing contracts account for over 40% of the Council's annual expenditure.</p> <p>The contract took effect from 1 April 2019. This is a significant project for the Council in terms of financial scale and the level of officer, member and other specialist inputs required.</p>	<p>Our work reviewed the Council's arrangements in place during 2018/19 for the development of the procurement process. The Council's existing contracts for refuse, recycling, street cleansing and grounds maintenance ended on 31 March 2019. The services were arranged in 4 lots with 3 contractors, with contracts ranging from 3.5 years to 16 years.</p> <p>The Council formed a Community Services Business Model Project Board to oversee the project. The Council also established a Community Services Business Model Task and Finish Group to provide feedback on the process to the Overview and Scrutiny Committee. The Council's Corporate Overview and Scrutiny Committee considered a report outlining the results of the service delivery model option appraisal exercise including anticipated affordability target savings of £1 million from 2019/20 on 21 April 2017. Six possible commissioning approaches were identified.</p> <p>At the Executive meeting on 10 May 2017 it was agreed that a contractor outsourced option would be chosen and in August 2017 the Council published an OJEU Contract Notice (Official Journal of the European Union) inviting potential bidders to register their interest.</p> <p>The Council procured services within 3 lots with effect from 1 April 2019 to provide:</p> <p>Lot 1 – waste and recycling collections;</p> <p>Lot 2 – street cleansing and grounds maintenance services; and</p> <p>Lot 3 – bulking, hauling and reprocessing of dry recyclables and green waste.</p> <p>The period of the contracts were for 8 years, with another 8 years extension if required. The Executive awarded the contracts in each lot on 17 October 2018. When only 1 bidder was left in Lots 1 and 3, the Council added a further layer of financial information within the requests to enable comparisons by external experts of single bids in lots to be evaluated.</p> <p>The Council acquired the recycling receptacles and also the waste collection vehicles and delivered the receptacles to households. The refuse vehicles arrived as planned. During the process the Council obtained specialist advice for legal, financial and technical expertise to aid the procurement process. The budget for the procurement was £0.29 million, and the outturn report for 2018/19 noted that an overspend of £0.117 million was recorded in addition to the budget, due to additional costs.</p> <p>Whilst, at the date of this report, agreed contractual arrangements are in place for the delivery of services under Lots 1 and 3, the Services Agreements remain unsigned for the services that commenced on 1 April 2019. This is currently being negotiated by the Council with the contractor, and this is a risk to the Council as a signed contract is not in place. This is high priority, and the Council are working with the contractor in order to achieve an agreed resolution including the negotiation of an interim agreement.</p> <p>Since the contract was introduced the refuse crews have not been able to make it to some properties on the scheduled day. The Council is working with the contractor and for two months from 8 July 2019 has agreed some temporary changes to help crews complete the refuse collection rounds whilst more permanent solutions are devised.</p>	<p>The Council has put in place arrangements to procure the refuse, recycling, street cleansing and grounds maintenance services during 2018/19 due to the contracts ending on 31 March 2019.</p> <p>Our opinion in this area is unqualified.</p> <p>The Services Agreement for Lots 1 and Lot 3 remain unsigned at the date of this report for services that commenced on 1 April 2019.</p> <p>The Council continues to discuss this position with the contractor including the negotiation of an interim agreement and temporary changes to assist crews in achieving the required daily collections.</p>

Value for Money conclusion

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Community stadium project At the planning stage of our work, the Council considered an outline business case for the development of a new community sports stadium in Workington at the 16 January 2019 Executive.</p> <p>Options for the site development, funding, procurement and management of the proposed stadium were key factors. This is a significant project for the Council in terms of financial scale and the level of officer, member and other specialist inputs required.</p>	<p>We reviewed the Council's arrangements in place for managing the development of the scheme during 2018/19.</p> <p>The Executive approved the full business case for the new community stadium selecting an investor/developer route to build the new stadium at a meeting of the Executive on 22 March 2019. This included a detailed assessment of the capital costs and financial model relating to the stadium. The stadium plans allowed space for rented accommodation and a NHS building, the income from tenants being key to the financial sustainability of the development.</p> <p>In March 2019, the Council won the right to host 3 games in the Rugby League World Cup in 2021. The approval of the new stadium was expected to be a crucial factor in securing the hosting opportunity.</p> <p>During the process the Council obtained specialist advice from legal, financial and technical expertise to aid the business planning process. Challenge was provided by experts in relation to the assumptions, the information to establish the cost and income streams, tax implications, legal implications, governance arrangements and operating model.</p> <p>The Council's Overview and Scrutiny Committee on 11 April 2019 'called in' the decision with three elements of the call in referred to the Executive for further consideration.</p> <p>Local elections were held during May 2019 and the first meeting of the new Executive was held on 28 June 2019. At that meeting the decision was taken to continue looking into the business case for a new stadium but in doing so, reduce the size and scale of the specification.</p> <p>On 4 July 2019 the Council notified the Rugby League World Cup of their withdrawal as a host in the 2021 World Cup.</p> <p>The 2018/19 financial statements include costs of £1.159 million incurred on the stadium project, which includes the Lonsdale Park land purchase.</p>	<p>Arrangements were in place during 2018/19 to provide information for informed decision making purposes regarding the Community Stadium project.</p> <p>Our opinion in this area is unqualified.</p> <p>In June 2019 the Executive of the Council reversed the previous decision from March 2019 to approve the full business case, therefore work is on-going at the Council to work through the implications of this decision.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and confirm there were no fees for the provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	13 February 2019
Audit Findings Report	22 July 2019
Annual Audit Letter	2 August 2019

Fees

	Planned £	Actual fees £
Statutory audit	37,059	44,559
Total fees	37,059	44,559

Audit fee variation

As outlined in our audit plan, the 2018/19 scale fee published by PSAA of £37,059 assumes that the scope of the audit does not significantly change. There were four areas where the scope of the audit changed, which led to additional work. These are set out in the following table.

Area	Reason	Fee proposed
Assessing the impact of the McCloud ruling	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	1,500
Value for Money Conclusion risks	As part of our work we have reviewed specific value for money risks for the major re-procurement exercise and the Stadium project that were additional and complex when compared to the assumed number of risks within the base fee for a council of this size.	3,000
Additional audit procedures on Pensions liabilities	Additional procedures now required in response to the Financial Reporting Council's feedback on audit work on Pensions liabilities.	1,500
Additional audit procedures on PPE valuations	Additional procedures now required in response to the Financial Reporting Council's feedback on audit work on the valuation of local authority Property, plant and equipment.	1,500
Total		7,500

Fee variations are subject to PSAA approval.



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