

# The Annual Audit Letter for Allerdale Borough Council

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**Year ended 31 March 2016**

October 2016

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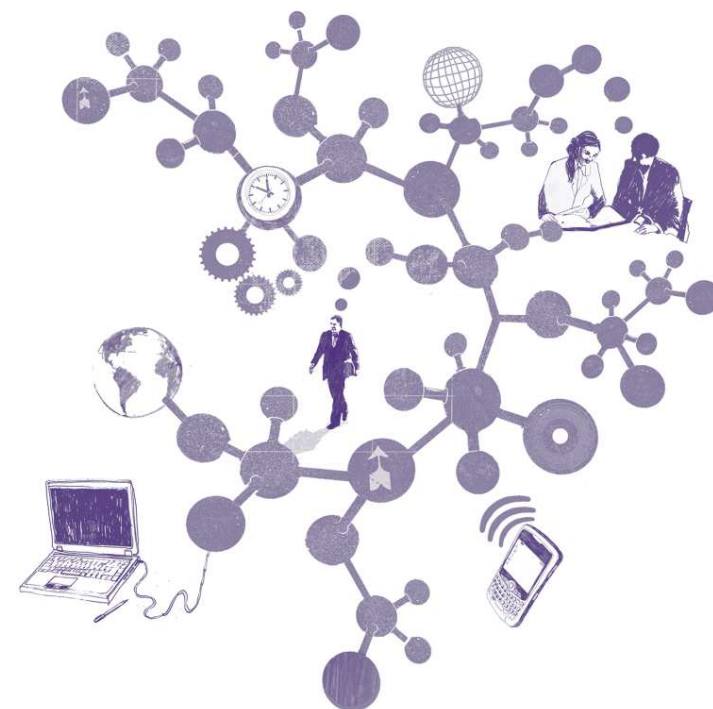
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# Executive summary

## **Purpose of this letter**

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

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

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 31<sup>st</sup> August 2016.

## **Our responsibilities**

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

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

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

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 31<sup>st</sup> August 2016.

### **Value for money conclusion**

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

### **Certificate**

We certified that we had completed the audit of the accounts of Allerdale Borough Council in accordance with the requirements of the Code on 31<sup>st</sup> August 2016.

### **Certification of grants**

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

## **Working with the Council**

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship. Together we have delivered some great outcomes, particularly completing the final accounts audit one month ahead of the 30<sup>th</sup> September deadline. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

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

We determined materiality for our audit of the Council's accounts to be £962,000, which is 1.75% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We also set a lower level of specific materiality for certain areas such as cash, senior officer remuneration and auditors remuneration.

We set a lower threshold of £47,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

### **The scope of our audit**

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

This includes assessing whether:

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

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

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

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

We identified key risks as set out overleaf with the work we performed in response to these risks.

# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of property, plant and equipment</b></p> <p>The Council revalues its assets on a rolling basis over a five year period . The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements. We are aware that the floods will have affected Council assets, such as car parks and the old leisure centre is to be replaced in 2016. We expect that these issues will be considered in arriving at valuations. Furthermore, we are aware that the Council has appointed new Valuers to perform valuations in 2015/16 following retender. The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The basis on which fair value is defined for investment property is different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• Reviewed the instructions issued to valuation experts and the scope of their work.</li> <li>• Liaised with the Valuer about the basis on which the valuations are carried out and challenged key assumptions.</li> <li>• Reviewed and challenged the information used by the Valuer to ensure it is robust and consistent with our understanding.</li> <li>• Tested revaluations made during the year to ensure they are input correctly into the Council's asset register.</li> <li>• Evaluated the assumptions made by management for those assets not re-valued during the year and how management has satisfied themselves that these are not materially different to current value.</li> <li>• Reviewed the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS 13.</li> </ul> <p><b>We were satisfied that the Council had taken into account any damage caused by flooding in its valuations and that the old leisure centre was valued on the basis that it would be closed during 2016. Also the accounts included the effect of FRS13 on property values and included appropriate disclosures.</b></p>

# Audit of the accounts

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

Risks identified in our audit plan	How we responded to the risk
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund assets and liabilities as reflected in its balance sheet represent significant estimates in the financial statements.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• Identified and documented the controls put in place by management to ensure that the pension fund liability is not materially misstated.</li><li>• Assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li><li>• Reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.</li><li>• Gained an understanding of the basis on which the valuation is carried out.</li><li>• Undertaken procedures to confirm the reasonableness of the actuarial assumptions made.</li><li>• Reviewed the consistency of the pension fund assets and liabilities and disclosures in notes to the financial statements with the actuarial report.</li></ul> <p><b>We were satisfied that management had used appropriate information and assumptions supplied by the pension fund actuary to report the liability in the accounts.</b></p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 31<sup>st</sup> August 2016, well in advance of the 30 September 2016 national deadline.

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

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit Committee on 31<sup>st</sup> August 2016.

We recommended a small number of adjustments to improve the overall presentation of the financial statements and ensure consistency. The most significant of these was to the Group disclosure note which related to Allerdale Investment Partnership LLP joint venture, was updated to reflect information received after publication of the unaudited statements. The note was amended to reflect changes made to the financial statements of the Allerdale Investment Partnership LLP (AIP) group following their audit by BDO. These changes were identified by the Council and updated existing disclosures in the Council's unaudited accounts to reflect the amounts reported in the audited financial statements of the AIP group.

## **Annual Governance Statement and Narrative Report**

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

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council. We recommended that the draft Annual Governance Statement be updated to reflect the recent changes in key personnel within the Allerdale Investment Partnership joint venture, and related governance control improvements. It was also updated to reflect the role of the Chief finance Officer.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. In the period, we have not had to use any of these other powers.

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# Value for Money Conclusion

## Background

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

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

## Key findings

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

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

As part of our Audit Findings report agreed with the Council in August 2016, we agreed recommendations to address our findings. The Council should:

- Embed and enforce the monitoring arrangements for the planned use of earmarked reserves .
- Introduce closer monitoring and scrutiny on the governance and financial management arrangements of Allerdale Investment Partnership LLP.
- Review the existing joint venture operating model to better manage exit strategies from the Special Purpose Vehicles (SPVs) and any related costs.

All of these recommendations have been implemented with the exception of the last one which is due to be implemented by December 2016.

## Overall VfM conclusion

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



# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Medium Term Financial Strategy and use of earmarked reserves</b>            The Council has historically managed its finances well and has consistently achieved savings targets, with the exception of continual underspends on planned use of earmarked reserves. It is on course to achieve a balanced budget for 2015/16. However, following the most recent settlement, and with the expected reduction in government grant, the Council has identified saving gaps in its Medium Term Financial Strategy of £346,000 in 2017/18 and £580,000 in 2018/19. This is after the Council's projected delivery of self-sufficiency savings of £3.473m over the next four years. These self sufficiency savings will be mainly delivered through service reviews.</p>	<p>We met with key officers to discuss key strategic challenges and review the Council's Medium Term Financial Strategy.</p> <p>We reviewed the outturn position for 15/16 and the budget plans for 16/17 and 17/18.</p> <p>We reviewed the Council's progress on the new arrangements introduced in 2015/16 to closely monitor spend on planned use of reserves at directorate level.</p>	<p>This review considered 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.</p> <p>The Council has sound financial planning and review processes in place. Each year the Council sets a three year Medium Term Financial Strategy (MTFS), with the current strategy being revised to reflect the outcome of 2015 spending review and Autumn Statement. The Council needs to achieve additional significant savings of £4.7m, including self-sufficiency savings of £3.6m up to March 2019. The Council has a good track record on achieving saving targets and it has delivered over £3m of planned savings in the last 4 financial years up to March 2016.</p> <p>£0.6m of the 2015/16 total net expenditure underspend of £1.1m is driven by an under utilisation of planned use of earmarked reserves. This underspend on planned use of reserves is significant in the context of the overall original planned profile of £1.5m to be spent in 2015/16.</p>

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Impact of key personnel changes involved in AIP LLP</b></p> <p>There has been a change in some of the advisors involved in the joint venture in and around the financial year end 2015/16.</p>	<p>We reviewed the impact of these changes on one of the Council's key partnership delivery models from a governance, legal, accounting and VFM perspective.</p>	<p>The Council has provided evidence to support there is no overall change in the governance and legal form of Allerdale Investment Partnership LLP, and in particular on the group structure of its joint venture partner. The Council has had assurance from its partner that the operational changes are being managed and will not impact on the delivery of the Special Purpose Vehicles (SPVs) primary purpose for the development of strategic land sites to support the Council's wider corporate priorities.</p> <p>The Council is able to demonstrate that reasonable progress is being made on the 4 SPVs and related developments. These projects have the capacity to deliver a return on the investment the Council has made, and more importantly to support its priorities especially on "strengthening our economy" and "enhancing our towns".</p> <p>We reviewed the Miltoft SPV , as the most advanced SPV, from a direct return and wider VFM perspective. AIP LLP has incurred additional unbudgeted corporation tax costs of £117,391, with the Council's share being £58,696, as a result of the direct disposal of land and not the SPV with the land within it to the purchaser. The Council expects to make a good net return on the £45,000 value of land sold and equivalent loan note received. We acknowledge that, from a VFM perspective this project has delivered tangible social and economic benefit to the Maryport and surrounding area in line with the Council's corporate priorities.</p> <p>The Council acknowledges that it needs to monitor more closely the activities of the joint venture and has taken steps to strengthen existing arrangements in this regard. As outlined in the revised Annual Governance Statement the Council is proposing to appoint a dedicated resource to monitor and scrutinise the joint venture from a governance, legal and operational perspective. It is critical that the Council also closely monitors and validates the costs incurred within the joint venture.</p> <p>The Council needs to review the current operating model to allow the joint venture to better manage SPV exit strategies.</p>

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# Working with the Council

## **Our work with you in 2015/16**

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

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

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We made recommendations around the use of earmarked reserves, monitoring and scrutiny on the governance and financial management arrangements of Allerdale Investment Partnership LLP and exit strategies from Special Purpose Vehicles in relation to the AIP.

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

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

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

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# Working with the Council

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

**Locally our focus will be on:**

- Continuing to deliver an efficient audit .
- Understanding and providing independent assurance on your operational health.
- How our value for money conclusion work gives assurance over governance arrangements relating to the Allerdale Investment Partnership and appropriate exit strategies from Special Purpose Vehicles.
- Support outside of the audit – our advisory team are happy to discuss with you any future plans your have. For example on alternative delivery plans, income generation and green energy.

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# Appendix A: Reports issued and fees

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

## Fees

	2015/16 Planned £	2015/16 Actual fees £	2014/15 fees £
Statutory audit of Council	48,128	48,128	64,170
Housing Benefit Grant Certification	14,916	14,916	17,490
<b>Total fees (excluding VAT)</b>	<b>63,044</b>	<b>63,044</b>	<b>81,660</b>

## Reports issued

Report	Date issued
Audit Plan	March 2016
Audit Findings Report	August 2016
Annual Audit Letter	October 2016



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