



Annual Audit Letter

Year ending 31 March 2018

Allerdale Borough Council
August 2018



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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 group undertakings for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council, group and external stakeholders, and to highlight issues 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 27 July 2018.

Our work

Materiality	We determined materiality for the audit of the Council and group's financial statements to be £966,000, which is 1.75% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified opinion on the Council and group's financial statements on 31 July 2018.
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 31 July 2018.
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 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Allerdale Borough Council in accordance with the requirements of the Code of Audit Practice.

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 accounts by the accelerated Local Government 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 access to a local government financial reporting and annual reporting workshop.

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

Grant Thornton UK LLP
August 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the Council and 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 Council and group's accounts to be £966,000 which is 1.75% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council and group's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration.

We set a lower threshold of £48,000, 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 Statement of Accounts including the Narrative Report and Annual Governance Statement to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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 is based on a thorough understanding of the Council'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 Accounts

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 property, plant and equipment (PPE) The Council revalues its land and buildings on a rolling basis over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register; • 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. 	<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 2018. No issues were found with the revaluation of PPE assets and investment properties.</p>
<p>Valuation of pension fund net liability The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out; • undertook procedures to confirm the reasonableness of the actuarial assumptions made; • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. 	<p>Our audit work did not identify any issues in respect of the valuation of the pension fund net liability. We were satisfied that the entries and disclosures in the Council's accounts for pension fund assets, liability and disclosures in notes were consistent with the actuarial report provided by Mercers.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the Council and group's financial statements on 31 July 2018.

Preparation of the accounts

The Council presented us with draft accounts 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 accounts

We reported the key issues from our audit to the Council's Audit Committee on 27 July 2018.

In addition to the key audit risks reported above, management identified, and made, three non-material amendments to the final set of accounts. Two of these changes were classification adjustments and the other one was simply to provide additional disclosure. None of these changes had any impact on the Council's financial position.

There were no unadjusted misstatements identified during the audit. A small number of minor changes were made to the wording and presentation of disclosure notes throughout the financial statements to improve their clarity and consistency.

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 were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both the Annual Governance Statement and Narrative Report 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. In the period, 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 accounts of Allerdale Borough Council in accordance with the requirements of the Code of Audit Practice on 31 July 2018.

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 key risks where we concentrated our work.

The key risk we identified and the work we performed is 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 2018.

Value for Money conclusion

Key Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>The Council's Medium Term Financial Plan (MTFP) 2017/18 to 2020/21, produced in February 2017, showed a £3.1 million funding gap between 2018/19 and 2020/21. This was in addition to the Council's projected delivery of self-sufficiency savings of £1.844 million over the period of the MTFP. In November 2017 the Council updated its MTFP for 2017/18 to 2020/21 and this showed a slight increase in the funding gap to £3.28 million for 2018/19 to 2020/21 and self sufficiency savings required still being £1.844 million. The Council continues to manage its finances well, and has consistently achieved savings targets and annual underspending, so it has not had to fully utilise its planned use of earmarked reserves. By January 2018 the Council had identified the savings needed to balance the 2018/19 budget. Even though the Council has a good record of delivering savings the level of savings required over the remaining period of the MTFP, on top of self-sufficiency savings, represents a significant challenge.</p>	<p>The Council continues to face financial challenges but the three year Medium Term Financial Plan (MTFP) 2018/19 to 2020/21 demonstrates its long term financial viability. Key planning assumptions cover both internal and external factors such as, Government funding, pay inflation, non-pay inflation and council tax increases. These assumptions appear reasonable, although for non-pay only contractual inflation is included in the budget with no other inflation included as a way of driving efficiencies. With inflation currently around 2.5%, and predicted to be around 2% until 2022, this will become increasingly challenging, although the Council is currently underspending. Overall, there is a sound process in place to produce the MTFP and update projections.</p> <p>The Council set the 2018/19 budget and Council tax requirement on 7 March 2018. This resulted in a balanced net revenue budget for 2018/19 of £14.6 million and a Council Tax increase of 3.19%. 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 2017 and again in February 2018 as part of the annual Council tax setting process. The MTFP projections, reported in February 2018, for 2018/19 to 2020/21 showed a £2.645 million funding gap between 2019/20 and 2020/21. This is in addition to the Council's projected required delivery of self-sufficiency savings of £0.422 million in 2018/19.</p> <p>When setting the 2017/18 budget in March 2017 the Council identified the need to deliver savings of £1.217 million. The required savings are built into the revenue budget and regularly monitored through the normal budget monitoring process within the Council. Any issues identified are considered and corrective action taken, or alternative savings are identified. Given that the Council level of underspending in 2017/18 it is not unreasonable to assume that the required savings for 2017/18 have been delivered, although they may have been delivered in a slightly different way to that original planned.</p> <p>At the end of December 2017 (Quarter 3) the projected overall net revenue outturn position was an underspend of £0.540 million. The outturn position was an overall net expenditure underspend of £0.758 million. Therefore, a difference of only £0.218 million (around 1.2% movement) from that projected at December 2017. At December 2017 net expenditure on services was projecting a £0.071 million underspend although outturn showed a £0.566 million underspend a difference of £0.495 million (3.4%). This is a significantly reduced difference when compared to the movement between Quarter 3 and outturn in 2016/17.</p> <p>At the 31 March 2018 total available reserves were £8.72 million (GF balance of £4.92 million and Earmarked reserves of £3.80 million). When the 2018/19 budget was agreed on 7 March 2018 total reserves were estimated as £8.25 million (GF balance of £4.46 million and Earmarked reserves of £3.79 million) but at outturn were actually £8.72 million, an increase of £0.47 million. This reflected the underspending in year.</p>	<p>The Council has put in place robust arrangements to monitor and update its financial plans including the delivery of the required savings. Based on this we are able to conclude that that the Council has in place proper arrangements 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>

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	8 February 2018
Audit Findings Report	16 July 2018
Annual Audit Letter	August 2018

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	48,128	48,128	48,128
Housing Benefit Grant Certification	14,916	To be confirmed	13,118
Total fees	63,044	To be confirmed	61,246

The planned fees for the year were in line with the scale fee set by Public Sector Audit Appointments Limited (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of PSAA Ltd. The planned fee included for grant certification is currently an estimate, as we have still to undertake his work.



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