



The Annual Audit Letter for Eden District Council

Year ended 31 March 2019

August 2019



Contents



Your key Grant Thornton team members are:

Gareth Kelly

Key Audit Partner

T: 0141 223 0891

E: Gareth.kelly@uk.gt.com

Jamie Wright

Engagement Manager

T: 0141 223 0603

E: Jamie.sb.wright@uk.gt.com

John Cangley

In Charge Auditor

T: 0141 223 0689

E: John.d.Cangley@uk.gt.com

Section

	Page
1. Executive Summary	3
2. Audit of the Financial Statements	5
3. Value for Money conclusion	10

Appendices

A Reports issued and fees	15
B Recommendations	16

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Eden District Council (the Council) and its subsidiary (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 Accounts and Governance Committee as those charged with governance in our Audit Findings Report on 25 July 2019.

Our work

Materiality	We determined materiality for the audit of the group's financial statements to be £406,000, which is 1.9% of the group's gross revenue expenditure. Materiality for the Council's financial statements was £405,000, which is 1.9% of the Council's gross revenue expenditure.
Financial Statements opinion	We issued an unqualified opinion on the group's financial statements on 29 July 2019.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO. Note that detailed work was not required as the Council did not exceed the threshold determined by the NAO.
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 opinion to the Council on 29 July 2019.
Certificate	We certified that we have completed the audit of the financial statements of Eden District Council in accordance with the requirements of the Code of Audit Practice on 29 July 2019.

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 as set out in section two
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, known as the value for money conclusion as set out in 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.

Executive Summary

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 July, delivering the financial statements before the deadline, releasing your finance team for other work
- Improved financial processes – we worked with you to streamline your processes
- Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness

- Sharing our insight – we provided regular updates to the Accounts and Governance Committee covering best practice. We also shared our thought leadership reports and wider sector insights
- Providing training – we provided your teams with training on financial statements and annual reporting, and plan to provide training on the role of external audit to the Accounts and Governance Committee.

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 2019

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 £406,000, which is 1.9% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's financial statements to be £405,000, which is 1.9% of the Council's gross revenue 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 officer remuneration, due to the sensitivity of this balance. We set a lower threshold of £20,000, above which we reported errors to the Accounts and Governance 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
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements and the 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 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 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>Valuation of land, buildings and investment property The Council revalues its land and buildings on a rolling basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>This risk includes the valuation of land and buildings in the group accounts, which are owned by Heart of Cumbria Ltd.</p>	<p>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 compared asset valuation movements against valuation indices to assess reasonableness of asset valuation movements. 	<p>We identified one asset which had its value overstated by £50,000. As this is not material, the Council did not amend the financial statements for this error. This has not impacted on our Audit Report opinion.</p> <p>No other issues in respect of the valuation of land, buildings and investment property have been identified.</p>
<p>Management override of internal controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.</p>	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design effectiveness of management controls over journals analysed the journals listing and determine 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 to supporting evidence 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. 	<p>Our audit work has not identified any issues in respect of management override of controls.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Accounting for the consolidation of the subsidiary Heart of Cumbria Ltd</p> <p>In July 2016, the Council created a wholly owned subsidiary company Heart of Cumbria Ltd with the aim of delivering affordable housing services to the local area through a more focussed and commercial approach, enabling the Council itself to focus on the delivery of services.</p> <p>During 2018/19 Heart of Cumbria Limited purchased its first 7 houses and began receiving rental income. Moreover, the Council has invested £1 million of share capital in the subsidiary to date, and has made a further £5 million loan facility available to the company as the remaining houses being purchased are completed.</p> <p>These agreements and transactions gave rise to a number of material accounting transactions, both quantitatively and qualitatively, for which group accounts need to be prepared. It requires us to consider the economic substance of the transactions.</p>	<p>We have:</p> <ul style="list-style-type: none"> • reviewed the key documents to gain an understanding of the agreements put in place on the establishment of the company • discussed with key group personnel, the underlying substance of the transactions and the basis of the Council's proposed accounting treatment of the arrangements • critically assessed the economic substance of the transactions to assess the appropriateness of the accounting treatment adopted by the group in accordance with the Code, International Financial Reporting Standards (IFRSs) and other relevant accounting guidance, including the alignment of accounting policies • undertaken predictive analytical review of the group financial statements • reviewed the consolidation process to ensure accuracy of the group financial statements. 	<p>The audit team was provided with an early version of the group accounts before the draft financial statements were submitted. The Heart of Cumbria's property was classified as investment property. This was challenged by the audit team as on consolidation the property should be considered under the Code, which would require the property to be classified as operational land and buildings, this was agreed by management. A critical judgement to explain this interpretation was requested as part of the audit and it has now been added in the final financial statements.</p> <p>Our audit work has not identified any issues in respect of accounting for the consolidation of Heart of Cumbria Ltd.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net 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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has for pension schemes where they have implemented transitional arrangements on changing benefits, such as the Local Government Pension Scheme. During June 2019 the Supreme Court rejected the Government's application to appeal the ruling, therefore the Council had to assess the potential impact on the pension fund net liability.</p>	<p>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 evaluated the design of the associated controls evaluated the instructions issued by management to their management expert (an actuary - Mercer) 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 undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as our auditor's expert) and performing any additional procedures suggested within the report obtained assurances from the auditor of Cumbria Local Government Pension 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. <p>Due to the impact of the McCloud ruling, we also:</p> <ul style="list-style-type: none"> reviewed the processes used by management in the evaluation of the impact of the McCloud judgment and the quantification of the potential impact on the financial statements, including how management confirmed the adequacy of work carried out by actuary assessed and challenged the relevance and reasonableness of all significant assumptions and methods used to generate the McCloud estimate by the actuary, including understanding how the organisation's workforce profile could affect this as the matter centres around age discrimination and potential increases in pension liability considered whether the estimate of the potential impact is in line with our expectations. 	<p>Our audit work did not initially identify any issues in respect of the valuation of the pension fund net liability.</p> <p>The Council engaged Mercer its Actuary to estimate the potential impact on the pension fund net liability as a result of the McCloud ruling. The outcome of this was an estimated increase in the net liability of £0.267m. As this amount was not material, did not impact on usable reserves and is based on an estimate, the Council did not amend for this amount in the final audited financial statements. The Council also sought the appropriate approval from the Accounts and Governance Committee, as Those Charged with Governance, to not amend the accounts</p> <p>As this was not material, it did not impact on our Audit Report opinion.</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the group's financial statements on 29 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.

Due to the material significance of the Council's wholly owned subsidiary, Heart of Cumbria Limited, the Council prepared group accounts for the first time in 2018/19. This required significant additional audit work to audit the group financial statements.

Issues arising from the audit of the financial statements

We reported the key issues from our audit of the group to the Council's Accounts and Governance Committee on 25 July 2019.

In addition to the key audit risks reported above, we identified a number of disclosure changes which were required to the financial statements, which did not impact the Council's primary financial statements. We also made a number of recommendations relating to both the financial statements and the Value for Money conclusion which are included in Appendix B.

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 and alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which confirmed the Council was below the audit threshold on 29 July 2019.

Other statutory powers

We also have additional powers and duties under the Local Audit and Accountability Act 2014, 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 did not have to use any of our other statutory powers during 2018/19.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Eden District Council in accordance with the requirements of the Code of Audit Practice on 29 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.

As part of our Audit Findings Report agreed with the Council in July 2019, we agreed recommendations to address our findings.

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

Significant risk

Findings

1 Heart of Cumbria Limited

Whilst our prior year VfM review into the Heart of Cumbria Limited identified significant progress made on its governance arrangements and financial modelling of the subsidiary, a number of other recommendations had not been implemented or fully embedded. Therefore, a significant risk remains that the arrangements in place for the Heart of Cumbria Limited are not adequate to ensure that the Council realises the full benefits of this company. This is in terms of it delivering on a number of Council priorities and to avoid any financial or reputational loss.

We will review progress on developing the governance and financial management arrangements in relation to the company, including follow-up on last year's audit recommendations, which cover all three VfM sub-criteria.

In last year's Audit Finding Report, we identified several areas where the Council needed to improve its arrangements in relation to the Heart of Cumbria Limited (HoCL). We made a number of recommendations to help the Council improve those arrangements and these included:

- Ensuring that appropriate tenancy management arrangements were in place for the affordable housing scheme
- Implementing safeguards to ensure the independence of members who are also on the Board of HoCL
- Including sensitivity analysis on key assumptions included in the financial model
- Including an entry in the Council's risk register in relation to the HoCL
- Developing and formalising SMART objectives.

We acknowledge the progress that has been made in implementing the recommendations made in our 2017/18 report, though there remains a couple of areas that require further consideration. Key achievements include:

- Signing a contract with an estate agency to provide professional support with tenancy management
- SMART targets have been formalised and 2018/19 targets were in place and performance was monitored against them, and 2019/20 targets have also been set
- The Council's Constitution has been updated such that where a conflict of interest arises the advice of the monitoring officer should be sought
- Sensitivity analysis has been included in the HoCL's financial model, including an analysis of property voids, so impact assessments can be undertaken and risks are understood
- The Council has included a specific risk on the risk register relating to the HoCL, risks can now be identified, monitored, managed and communicated to members appropriately.
- The HoCL has developed its own risk register, which is reviewed at each Board meeting.

The Council's Strategic Advisor, People and Places is currently undertaking a thorough review of the arrangements for HoCL, to ensure it is fit for purpose and has appropriate strategic direction.

Progress made ensures that we are able to conclude that appropriate overall arrangements are in place. However, we identified one area where the Council, working with the Company, needs to continue to develop its arrangements.

Governance Arrangements

One specific issue that needs to be considered when a Council has a wholly owned subsidiary, is that of Board Membership and the need to effectively manage risks around good governance, transparency and conflicts of interest. It is important that any such arrangements are robust and are seen to be promoting effective governance and transparency to manage real and perceived independence, objectivity and integrity risks to the Council or individual members and officers.

In May 2018, we noted that the Council's Constitution was amended such that where potential conflicts of interest arise, the advice of the Monitoring Officer should be sought. To date, the advice of the Monitoring Officer has been that members who are Directors on the HoCL can discuss, but not vote on, matters relating to HoCL. This advice is appropriate in ensuring that potential conflicts of interest are mitigated. However, it is important that the Council keeps such issues under review and it may be useful to look at how Board membership at other similar local authority companies are structured to manage such governance related risks.

Value for Money conclusion

Value for Money Risks

2

Significant risk

Financial Planning and Management

There remains financial challenges over the next few years which the Council needs to meet. There is a risk that financial planning and management will not be adequate to meet those challenges.

We will review the arrangements the Council has in place to compile the Medium Term Financial Plan (MTFP), including challenging the key estimates, judgements and assumptions made. This will also include a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP, including reporting outcomes to the Council.

Findings

The year-end outturn report and financial statements show General fund balances have fallen by 9% from £8.3 million at 31 March 2018 to £7.6 million at 31 March 2019. Overall, usable reserves have fallen by 5% from £15.8 million to £15 million as at 31 March 2019.

The capital outturn for 2018/19 was £1.7 million against a £3.2 million budget. £1.3 million underspend/slippage on the capital programme has been carried forward and re-profiled over future years, the majority of which relates to Heart of Cumbria and disabled facility grants. The revenue outturn for 2018/19 was an underspend against budget of £0.014 million. Included in this amount is £0.136 million carried forward into the next financial period.

The Council has a comprehensive approach to its medium term financial planning and budgeting, which are agreed at a corporate level, by senior officers and members. The strategy is aligned to the Council's corporate priorities, highlights the key financial risks, and adopts a prudent approach to forecasting future changes to funding and expenditure streams. For example, the MTFP has incorporated an average decrease in recurring revenue of 4% over the period covered by the MTFP. There is an annual budget setting process with key considerations reviewed by the Section 151 officer, including the adequacy of reserves balances and reasonableness of assumptions and estimates used.

The Corporate Management Team monitor the financial position on a monthly basis and any significant issues are highlighted to the relevant portfolio holder. On a quarterly basis the Executive formally considers the revenue and capital monitoring reports. The Corporate risk register, which is reported to the Accounts and Governance Committee also includes financial risks to ensure there is corporate ownership and management of these risks.

The MTFP was approved by Council in September 2018 as part of the Resources Plan, and updated in February 2019 as part of the Budget process. This demonstrates that appropriate steps were being taken to ensure a balanced budget position was maintained despite reduced Government funding. The Council has adopted a prudent approach to predicting changes to the future of funding, given the uncertainty caused by the Fair Funding Review and review of the Business Rates Retention Scheme, the outcomes of which are not expected until later in 2019/20, at the earliest.

As a result, the MTFP forecasts a challenging period in which the General Fund reserves balance falls below the minimum General Fund Reserves set by the Council of £1.5 million in 2022/23, by £100,000. The MTFP assumes use of General Funds reserves is required over the four-year period covered by the Plan to ensure a balance budget is set, which reduces the balance from £7.6 million at 31/3/2019 to £1.4million at 31/3/2023. The run rate on the use of reserves from 30/3/2017 of £8.6 million to the projected position at 31/3/2021 of £4.9 million is 43%, which represents a significant reduction.

Value for Money conclusion

Value for Money Risks

2

Significant risk

Financial Planning and Management

There remains financial challenges over the next few years which the Council needs to meet. There is a risk that financial planning and management will not be adequate to meet those challenges.

We will review the arrangements the Council has in place to compile the Medium Term Financial Plan (MTFP), including challenging the key estimates, judgements and assumptions made. This will also include a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP, including reporting outcomes to the Council.

Findings

This illustrates that the financial position, including general fund reserves, is currently stable, but there are significant challenges in the short to medium-term. The MTFP demonstrates the need for recurring savings/efficiencies or income generation opportunities to be identified.

Overall, significant revenue streams have been reduced over the period covered of the MTFP:

- Rural Services Delivery Grant reduces from £0.7 million in 2019/20 to nil in 2020/21
- Business Rates Pool income reduces from £0.3 million in 2019/20 to nil in 2020/21
- Business rates income reduces by £0.6 million over the life of the MTFP
- New Homes Bonus reduces from £0.6 million in 2019/20 to £0.1 million in 2022/23.

These assumptions equate to a reduction in income of £4.9 million over the life of the MTFP. Whilst the assumptions are prudent, the actual outcome is not known until the Fair Funding Review and the Business Rates review is communicated, and therefore the position may be better or worse than projected. However as the Council states in the Resources Plan "If a number of the key factors in the MTFP turn out worse than expected, the Council's forecast revenue position could easily be significantly worse." The Council has performed sensitivity analysis on key assumptions to understand the impact of fluctuations on the financial position.

The Council has assumed a 2.99% increase in Council Tax in each period from 2020/21. Whilst the Council does have this as an option, there has not been a rise in Council Tax in Eden over the last 5 years, and therefore officers should ensure this assumption is realistic in consultation with members.

We recognise that the Council is currently developing the 'One Eden' transformational programme, which has started in 2018/19 with the introduction of a new senior management structure. The Council has approved the use of £500,000 from the Business Rates Retention Scheme reserve for the 'One Eden' Project and a further £250,000 for place shaping. 'One Eden' is a wide ranging and integrated programme which will bring together the Council's plans on customers, digital, people, culture and accommodation to improve services for customers, deliver efficiency savings through new ways of working and increased ongoing revenue income.

The MTFP 2019/20 to 2022/23 shows that required savings of £5.334m are needed to avoid the further use of General Fund reserve balances to meet recurring expenditure. Despite this, there are currently no tangible savings, efficiency or income generation targets included in the Council's MTFP, and therefore no defined actions to address the short-term financial challenge which is projected to significantly reduce revenue reserves.

It is vital that the Council identifies savings or revenue generation projects which will address the current imbalance in the revenue budget, to ensure that sufficient revenue reserves are retained in the medium to long term. These should be included in the MTFP and achievement of the targets monitored on a regular basis.

Value for Money conclusion

Value for Money Risks

2

Significant risk

Financial Planning and Management

There remains financial challenges over the next few years which the Council needs to meet. There is a risk that financial planning and management will not be adequate to meet those challenges.

We will review the arrangements the Council has in place to compile the Medium Term Financial Plan (MTFP), including challenging the key estimates, judgements and assumptions made. This will also include a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP, including reporting outcomes to the Council.

Findings

At the beginning of 2019/20 the Council has experienced difficulty in agreeing an extension to one of its major contracts, due to contractual terms for the extension not being complied with. Therefore, the contract could not be extended, and instead had to be renegotiated with the contractor. As a result of this contract costs have increased by £0.145 million in 2019/20, £0.194 million in 2020/21 and £0.294 million in 2021/22. This is a further real pressure on the medium term revenue budget of the Council, which has not been considered as part of the current MTFP, and therefore makes the projected positions discussed above even more challenging. The Council needs to reflect the impact of these increased contract costs in its updated MTFP. It also needs to review other significant contracts to ensure conditions are being complied with to assure the Council it is not being exposed to any other significant financial risks.

As part of the 'One Eden' project a Council office accommodation scheme was agreed on 19 April 2018 and is a major financial commitment for the Council in the medium-term. This included a capital budget of £2.3m. Funding is anticipated to be through borrowing from the Public Works Loans Board at the prevailing rate or other suitable means of funding with the overriding provision being that the final funding model is cost neutral or near cost neutral. The main risks in this project are project overspend and overrun.

Based on the review of the MTFP arrangements in place during 2018/19, we conclude that the overall risk was sufficiently mitigated and that the Council has proper arrangements in this area. However, the Council needs to review its MTFP to:

- **identify recurrent savings or income generation opportunities, including quantifying the potential impact of the 'One Eden' project, to reduce the need to rely on the use of revenue reserves to balance the budget**
- **closely monitor the run rate on the use of its usable reserves given the significant decrease projected**
- **reflect the updated contract costs and review other significant contracts to ensure compliance with contractual terms and further financial risk exposure**
- **review the assumption that Council Tax will be increased by 2.99% from 2020/21 onwards.**

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

Fees

	PSAA Scale Fee £	Actual fees £	2017/18 fees £
Statutory audit	32,296	39,796	41,943
Total fees	32,296	39,796	41,943

Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £32,296 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table. When the fee variation is taken into account the Council has still achieved a 5% reduction in audit fee from the 2017/18 audit.

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.	£1,000
Accounting for the consolidation of the subsidiary Heart of Cumbria Limited	Due to the material significance of the Council's wholly owned subsidiary, Heart of Cumbria Limited, the Council prepared group accounts for the first time in 2018/19. We included a significant risk in our audit plan relating to the first-year of consolidation. As group auditors we are required to audit both the Council and group figures in the financial statements which substantially increases the audit work required. This will be a recurring fee variation which will be reviewed annually based on the amount of work required to audit the group figures.	£3,500
Pensions – IAS 19	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across Local Government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1,500
PPE Valuation – work of experts	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£1,500
Total		£7,500

Fee variations are subject to final PSAA approval.

B. Action plan

We have identified five recommendations for the group 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 2019/20 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
1	<ul style="list-style-type: none"> We made an audit recommendation in 2017/18 (page 24) in relation to the Board of HoCL including Council members, and the potential conflicts of interest that this could cause. The Council has updated its constitution to state that when conflicts of interest arise the advice of the Monitoring Officer should be sought. It is important that the Council keeps such issues under review. 	<ul style="list-style-type: none"> Ensure that potential conflicts of interest relating to Members who are also Directors on Heart of Cumbria Limited are kept under review and mitigating actions should be taken. <p>Management response</p> <ul style="list-style-type: none"> As noted, the Council's Strategic Advisor, People and Places is currently undertaking a thorough review of the arrangements for HoCL. Once the medium term direction of the company is agreed, any further options relating to governance will be weighed up and addressed.
2	<ul style="list-style-type: none"> General Fund reserves are projected to fall below the minimum level set by the Council in 2022/23 in the Council's MTFP which demonstrates a significant run rate of the use of revenue reserves. Whilst this is based on a number of assumptions, there is currently a limited response to this financial challenge included in the MTFP. 	<ul style="list-style-type: none"> Identify recurrent savings or income generation opportunities (including quantifying the potential impact of the One Eden project) to respond to the challenges identified in the MTFP, and reduce the need to rely on the use of revenue reserves to balance the budget. <p>Management response</p> <ul style="list-style-type: none"> The need for a reduction in the net running cost is fully acknowledged by the Council. One of the key early actions of the 'One Eden' Programme was to engage the management consultancy Ignite to review the current operating model and provide a fully costed business plan. This will set out how services can be delivered more efficiently with a greater customer focus. Ignite are due to report in time for the 2020/21 budget cycle which should allow realistic savings targets to be built into the MTFP.
3	<ul style="list-style-type: none"> The Council has will incur an increased revenue cost over the next 3 years on a significant service contract, due to non-compliance with contractual terms relating to a contract rollover. These increased costs are currently not factored into the MTFP, and there is the risk that this issue to have been replicated in other contracts. 	<ul style="list-style-type: none"> Update the MTFP to reflect the increased revenue costs relating to the contractual issue arising in 2019. Undertake a review of all significant contracts to confirm compliance with contractual terms and assess any financial risk exposure. <p>Management response</p> <ul style="list-style-type: none"> The increase in contract costs and any other known pressures or savings will be reflected in the next iteration of the MTFP. As set out in the 2018/19 AGS action plan, the Council's internal audit contractor (TIAA limited) have been engaged to review arrangements around compliance with contract terms and will report back to the Accounts and Governance Committee.

Controls

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

B. Action plan

	Assessment	Issue and risk	Recommendations
4	●	<ul style="list-style-type: none">The MTFP assumes that council tax will increase annually by 2.99% from 2020/21 onwards, despite rises not occurring in recent years.	<ul style="list-style-type: none">Keep the assumption that Council Tax will be increased by 2.99% from 2020/21 onwards, in the MTFP, under review given the recent pattern of not increasing council tax levels. <p>Management response</p> <ul style="list-style-type: none">As noted, the MTFP assumes a 2.99% rise in Council Tax. Officers will continue to highlight the impact of any deviation away from these assumptions on the medium term sustainability of the Council.
5	●	<ul style="list-style-type: none">We found that the control to ensure that the final carrying values in the asset register, following revaluation postings, agreed to the valuation report did not operate effectively due to a late adjustment. This led to an error in the revaluation of Penrith depot going unnoticed.	<ul style="list-style-type: none">Carry out a check following the posting of revaluations to the asset register to ensure that the final carrying values of assets correspond to the valuation report figures. (This would be facilitated if the valuer provided a summary schedule of asset valuations to accompany the individual valuation certificates.) <p>Management response</p> <ul style="list-style-type: none">Management acknowledge that a simplified schedule to summarise the valuations would make the reconciliation of revaluations more efficient. The depot valuation was subject to a revision late in the accounts preparation process and so was not subject to the same controls applied to all other revaluations. A full reconciliation based on the finalised values will be completed going forward.

Controls

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



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.