

# The Annual Audit Letter for Allerdale Borough Council

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**Year ended 31 March 2017**

October 2017

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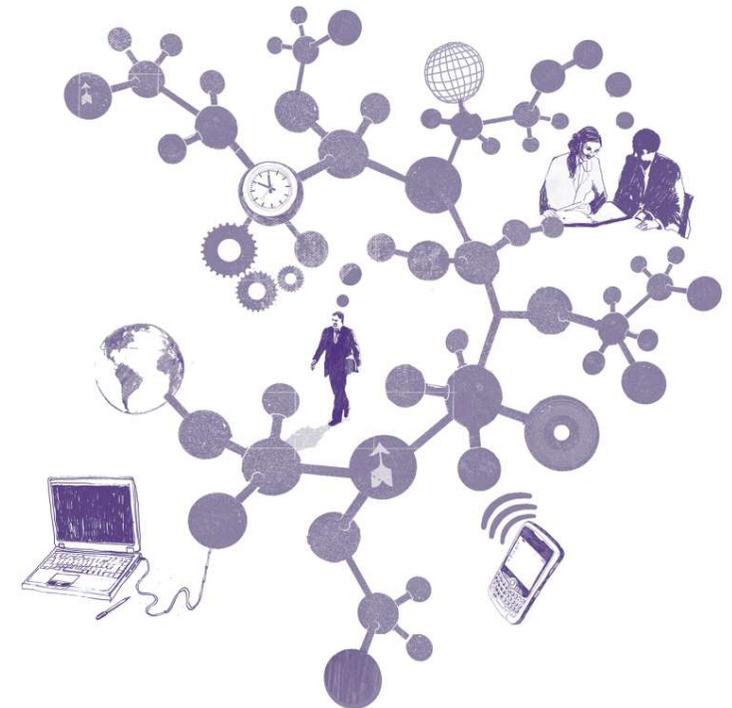
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Allerdale Borough Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights 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 (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 21 August 2017.

## **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 24 August 2017.

### **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 2017. We reflected this in our audit opinion on 24 August 2017.

### **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 24 August 2017.

### **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. We certified the 2015/16 claim on 18 November 2016 and there were no adjustments to the claim and no qualification letter was required. Our work on this year's claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit Committee in our Annual Certification Letter.

### **Working with the Council**

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**  
**October 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate 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 £0.948 million, 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 members allowances, senior officer remuneration, exit packages and related party transactions.

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 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 the Head of Financial Services 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 included in the Statement of Accounts on which we gave 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 and set out overleaf the work we performed in response to these risks and the results of this work.

# 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	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements.</p>	<ul style="list-style-type: none"> <li>identified the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessing whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement</li> <li>reviewed the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation</li> <li>gained an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made</li> <li>reviewed the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>	<p>Our audit work did not identified any issues in respect of the valuation of the pension fund net liability.</p> <p>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>
<p><b>Valuation of property, plant and equipment and investment property</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.</p> <p>The Council's new leisure centre opened in September 2016, this is the first year that it will be valued as an operational asset. We expect there to be heightened public interest in disclosures relating to the leisure centre and its valuation in the accounts.</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>discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions</li> <li>reviewed and challenged of the information used by the valuer to ensure it was robust and consistent with our understanding</li> <li>tested revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>Evaluated the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.</li> </ul>	<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 2017.</p> <p>During 2016/17 the Authority identified an error in the calculation supporting the valuation of the Derwent Water Camping and Caravan site at 31 March 2016. Following the receipt of additional information during the course of the audit we agreed with the Council that this error, within the draft accounts, should be corrected by way of a prior period adjustment to restate the 2015/16 financial statements. The valuation of investment properties and balance of unusable reserves at 31 March 2016 were subsequently restated by £1.7m to correct this error. This prior period adjustment also resulted in a reduction of £1.7m in the 'Changes in fair value of investment properties' figure included in the 2016/17 Comprehensive Income and Expenditure Statement (CIES).</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 24 August 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable, and provided a good set of supporting working papers. The finance team responded promptly and efficiently to our queries during 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 21 August 2017.

In addition to the key audit risks and adjustments reported above, we identified a small number of other adjustments were required to improve the overall presentation of the financial statements and ensure consistency. In addition the Financial Services Manager has highlighted plans to undertake an exercise for 2017/18 to further de-clutter the accounts by removing immaterial notes and disclosures. We will be pleased to work with the Council on this initiative.

## **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 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. However, a number of amendments were required to the draft Annual Governance Statement to ensure compliance.

## **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 2016 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.

## **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 2017.

# Value for Money

**Table 2: Value for money risks**

Risk identified	Work carried out	Findings and conclusions
<p><b>Financial Sustainability</b></p> <p>The Council's Medium Term Financial Plan 2017/18 to 2020/21, produced in February 2017, shows a £3.1 million funding gap between 2018/19 and 2020/21. This is in addition to the Council's projected delivery of self-sufficiency savings of £1.24 million over the next two years. The Council continues to manage its finances well, and has consistently achieved savings targets, whilst annual underspending has meant it has not had to fully utilise its planned use of earmarked reserves. At 31 December 2016 the Council was predicting a net service expenditure overspend of £0.204 million in 2016/17 although an overall underspend for the year of £0.073 million when all financing and use of reserves taken into account. Even though the Council has a good record of delivering savings the need to save a further £3.1 million, on top of self-sufficiency savings of £1.24 million, represents a significant challenge.</p>	<p>We reviewed the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We will also consider the arrangements in place to monitor the identification and delivery of savings.</p>	<p>The Council faces 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 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. This will become increasingly challenging as inflation rises 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 2017/18 budget and Council tax requirement on 1 March 2017. This resulted in a balanced net revenue budget for 2017/18 of £14.5 million and a Council Tax increase of 1.9%. The MTFP projections, reported in February 2017, for 2018/19 to 2020/21 showed a £3.1 million funding gap between 2018/19 and 2020/21. This is in addition to the Council's projected delivery of self-sufficiency savings of £1.24 million over the next two years.</p> <p>When setting the 2016/17 budget in March 2016 the Council identified the need to deliver savings of £1.71 million. These 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.</p> <p>At the end of December 2016 (Q3) the projected net revenue outturn position for 2016/17 was £16.43 million and underspend of £0.073 million. However, the outturn position was net expenditure of £12.86 million, a difference of £3.57 million (21.7%) from that projected at December 2016. The Council analysed movements between Q3 and the Outturn position and concluded there was a general theme of underspending, and some specific reasons for the underspend, but a number of the changes were non-recurring so minimising impact on MTFP.</p> <p><b>The Council has recognised the need to keep its budget monitoring under review to ensure the accuracy of projections. It has 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 it plans finances effectively to support the sustainable delivery of strategic priorities and uses appropriate cost information to support informed decision making.</b></p>

# 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

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of the Council	48,128	48,128	48,128
Housing Benefit Grant Certification	13,118	13,118	14,916
<b>Total fees (excluding VAT)</b>	<b>61,246</b>	<b>61,246</b>	<b>63,044</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Our fee for grant certification covers only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The fee included for 2016/17 is currently an estimate, as we are still undertaking this work.

## Reports issued

Report	Date issued
Audit Plan	8 February 2017
Audit Findings Report	8 August 2017
Annual Audit Letter	October 2017



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