

The Audit Findings Report for Cumbria County Council

Year ended 31 March 2013

September 2013

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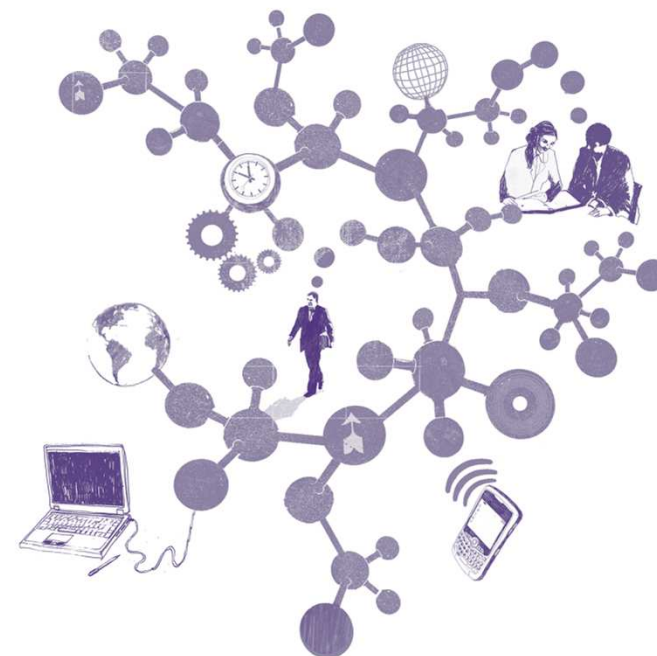
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Section 1: Executive summary

01. Executive summary

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We plan to give an unmodified opinion on the financial statements with no material errors identified. We are pleased to report the Council has achieved a high quality standard of financial reporting for 2012/13 in terms of compliance with the CIPFA Code of Practice. This reflects significant improvement on previous years' audits.

We have considered the impact of the recent "Inadequate" Children Protection recent regulator's inspections and as a result we are planning to issue an "except for" modified VFM conclusion qualification.

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with the exception of the matter reported on Children Protection, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Cumbria County Council's ('the Council') financial statements for the year ended 31 March 2013. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting (CIPFA Code). We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated 18 June 2013.

Our audit is substantially complete although we are finalising our work in the following areas:

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events, contingent asset and liability reviews, to the date of signing the opinion
- review of the Whole of Government Accounts.

We received the draft financial statements and accompanying high quality working papers at the start of our audit, in accordance with the agreed timetable. The financial statements have been produced to a high quality standard of compliance with the CIPFA Code. Our regular finance update meetings and open dialogue together with prompt responses to our queries has ensured the smooth running of the audit.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements.

We have not identified any errors requiring adjustment or affecting the Council's reported financial or balance sheet positions. The Council has made significant improvements in its financial reporting which is a reflection of the additional financial expertise, capacity and quality control and learning from previous audits.

We have recommended and the Council has made three significant non trivial adjustments to improve the presentation of the financial statements. These key changes relate to:

- Note 4 Segmental analysis – a late adjustment of £8.989m was omitted from the totals in the Council's accounts due to an incorrect calculation. The adjustment had been omitted completely from the Group Accounts.
- Note 32 Financial instruments - £6.114m error due to the incorrect inclusion of prepayments and £4.003m due to the incorrect inclusion of payments in advance. Comparator notes were also amended.
- the Cash Flow Statement was incorrect in the breakdown of the figures by £2.914m, however we acknowledge the working papers were correct and the Cash Flow Statement submitted to audit was not the final version.

Further details are set out in section 2 of this report.

Annual Governance Statement

The assurance gathering arrangements to support the Annual Governance Statement disclosures was not based around all of the 21 elements of good governance referred to in CIPFA's recent Delivering good governance in LG framework Addendum published in December 2012.

Value for money conclusion

We have considered the impact of the recent "Inadequate" Children Protection regulator inspections on our VFM conclusion. We have submitted evidence to our internal moderation panel to ensure a consistent approach across all authorities. The panel supports an "except for " modified VFM conclusion qualification on this Children Protection issue.

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with the exception of the matter reported on Children Protection, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013. Further detail of our work on Value for Money is set out in section 3 of this report.

Whole of Government Accounts (WGA)

We expect to complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

Controls

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council. We draw your attention in particular to control issues identified in relation to the wider control assurance gained by the Council over the schools payroll operated by a Service Organisation Capita.

Further details are provided within section 2 of this report.

The way forward

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Executive and Assistant Director - Finance.

We have made two recommendations, which are set out in the action plan in Appendix A. These recommendations have been discussed and agreed again with the Chief Executive, Assistant Director -Finance and the wider finance team.

Acknowledgment

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. We acknowledge and continue to encourage the Council to maintain the open dialogue approach with your external auditors, which greatly assists in addressing significant matters on a timely basis.

Section 2: Audit findings

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We have not identified any errors requiring adjustment or affecting the Council's reported financial or balance sheet positions.

We have recommended and the Council has made three significant non trivial adjustments to improve the presentation of the financial statement disclosures on Segmental Reporting, Financial Instruments and Cash Flow Statement.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Assurance Committee on 18 June 2013. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 18 June 2013.

Audit opinion

We anticipate that we will provide the Council with an unqualified opinion on the financial statements including the section relating to Cumbria Local Government Pension Scheme. We plan to issue an "except for " modified VFM conclusion qualification, as a result of the inadequate arrangements for the protection of Children in Cumbria assessment by the Ofsted and Care Quality Commission inspection in May 2012 and the service specific Ofsted Inspection in May 2013.

Our audit opinions for Cumbria County Council and that relating to Cumbria Local Government Pension Scheme are set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	Improper revenue recognition Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> • review and testing of revenue recognition policies • testing of material revenue streams • review of unusual significant transactions 	Our audit work has not identified any issues in respect of revenue recognition.
2.	Management override of controls Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>
3.	Material contractual dispute There is the risk of a material misstatement in the accounts given the current uncertainty and material disparity in relation to the final resolution of the contract dispute	<ul style="list-style-type: none"> • review of the Council's compliance with IAS 37 Provisions, contingent liabilities and contingent assets • on-going discussion with the Council to determine correct accounting treatment in the financial statements 	<p>Our audit work has considered the on-going position with regard to this contractual dispute and the associated accounting implications for the Council's 2012-13 financial statements. We have reviewed in detail the latest position on the dispute right up to the date of signing the opinion in late September 2013.</p> <p>We are satisfied the Council has fully considered the accounting implications under IAS37 and the wording included in the Contingent Liability note is sufficient and reflects the latest position.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.




Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Operating expenses	Operating expenses / creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively Substantively tested operating expenses at final accounts stage and a review of significant items including: <ul style="list-style-type: none"> year end creditors balances and accruals allocation of overheads services expenditure with attribute testing of invoices 	Our audit work has not identified any significant issues in relation to the risk identified.
Employee remuneration	Remuneration expenses not correct	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively substantively tested employee remuneration expenditure at final accounts stage including audit of: <ul style="list-style-type: none"> redundancy payments senior officers remuneration the year end reconciliation between the payroll systems and general ledger for both Resourcelink and Trent. how the Council has assurance over the £90 million gross/ £60 million net annual schools payroll Resourcelink. This is operated by a service organisation - Capita. services payroll expenditure for both Trent and Capita payrolls with attribute testing of employees. Cheque book schools journal postings to the ledger IAS19 pension disclosures and journal postings 	<p>Our audit work has not identified any significant issues in relation to the risk identified with exception of the wider control assurances around the schools payroll run by Capita on behalf of the Council.</p> <p>See the Internal Controls section for full details of the issue.</p>

Audit findings against other risks



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment		<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls are designed effectively substantively tested PPE balances at final accounts stage including audit review of: <ul style="list-style-type: none"> reconciliation of the fixed asset register and the property register valuations and the accounting treatment adopted the PFI operating models and related accounting together with the basis of related valuations and disclosure notes. significant additions, disposals and transfers depreciation and componentisation policies and accounting entries leases disclosures and accounting revenue expenditure funded by capital under statute (REFCUS) testing capital financing transactions. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>Our detailed PFI testing included comparing the operating and accounting models used by the Council against Grant Thornton's own models and no material differences have been identified.</p>

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser. Revenue from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction. 	<ul style="list-style-type: none"> Our review of revenue recognition policies has not highlighted any issues which we wish to bring to your attention. 	 Green Accounting policy appropriate and disclosures sufficient
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include: <ul style="list-style-type: none"> – useful life of capital equipment – PFI transactions – pension fund valuations and settlements – revaluations – impairments – provisions – accounting for schools. 	<ul style="list-style-type: none"> Our review of judgements and estimates has not highlighted any issues which we wish to bring to your attention. 	 Green Accounting policy appropriate and disclosures sufficient
Other accounting policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards. 	<ul style="list-style-type: none"> Our review of accounting policies has not highlighted any issues which we wish to bring to your attention. 	 Green Accounting policy appropriate and disclosures sufficient

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Adjusted misstatements

No material adjustments to the draft financial statements have been identified during the audit process. This is a significant improvement and highlights the substantial progress the Council has made in strengthening their accounts compilation processes.

Unadjusted misstatements

There are no unadjusted misstatements to the Statement of Accounts.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	£8,989	Note 4 – segmental reporting	<p>An £8,989k error occurred due to a late adjustment the Council made in the draft accounts that had not been correctly calculated in the downward castings.</p> <p>The £8,989k adjustment had been omitted completely from the Group Accounts segmental analysis note. Both notes were corrected.</p> <p>The Reconciliation of directorate income to cost of services note includes a number of items although below the net cost of services line will have been reported to management. The Council acknowledges this and will make the disclosure clearer as to what has been reported to management in future years.</p>
2 Misclassification	£6,114	Note 32 – Financial Instruments	A £6,114k error occurred due to the incorrect inclusion of a prepayment in the financial instruments disclosure note within the loans and receivables balance for short-term debtors. The 2011-12 comparator was also amended for £4,043k. This does not impact on the balance sheet as this is a memorandum disclosure note only.
3 Misclassification	£4,003	Note 32 – Financial Instruments	A £4,003k error occurred due to the incorrect inclusion of payments in advance in the financial instruments disclosure within the financial liabilities balance for long-term creditors. The 2011-12 comparator was also amended by £2,536k to nil. This does not impact on the balance sheet as this is a memorandum disclosure note only.
4 Misclassification	£2,914	Cash-flow statement and associated disclosures	The cash-flow statement presented for audit was an earlier version than within the working papers. Using the correct version of the cash-flow statement amended the mix of cash-flow statement and disclosure notes by £2,914k. The amendment had no effect to the total movement in cash and cash equivalents.

Misclassifications & disclosure changes


The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
5 Disclosure	n/a	Annual Governance Statement (AGS)	<p>The draft AGS did have a number of omissions which the Council has addressed in a redraft, including reference to:</p> <ul style="list-style-type: none"> • the Local Code in the "Scope of Responsibility" as approved by the Audit and Assurance Committee in June 2013 • governance arrangements in key partnerships • performance statements and other published information are accurate and reliable • actual Group Audit Manager annual opinion (Head of Internal Audit) • assurance arrangements in place to discharge role of Head of Paid Service, Monitoring officer and Head of Internal Audit • impact of new powers under Health and Social Care Act 2012/ Police Reform and Social Responsibility Act 2011 • effective arrangements for transformation and change and anti fraud and corruption. <p>There is a risk that the assurance gathering arrangements to support the AGS is not based around all of the 21 elements of good governance as referred to in CIPFA's Delivering good governance in LG framework Addendum (December 2012), especially on partnership governance arrangements. We acknowledge that any gaps identified as part of redrafting the AGS have been factored into the final AGS action plan.</p>

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matter reported here is 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. This recommendation, together with management response, is included in the action plan attached at appendix A.

	Assessment	Issue and risk	Recommendation
1.	 amber	<p>Adequate Control Assurance over Schools Payroll</p> <ul style="list-style-type: none"> • Risk of the Council not having adequate full control assurance over the schools gross payroll of over £90 million as it is operated by a Service Organisation – CAPITA. • No wider control assurance are sought from CAPITA in the form of an International Standards on Assurance Engagement (ISAE) 3042 report or equivalent to support Internal Audit and External Audit respective controls and substantive testing. 	<p>In addition to the existing controls assurance over the CAPITA run schools payroll, future procurement processes should consider requesting an International Standards on Assurance Engagement report or equivalent to support the Council's wider control environment over payroll.</p>

Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Assurance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> In particular, representations will be requested from management in respect of outstanding equal pay claims and the latest position on the significant on-going contractual dispute.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions or errors in the financial statements with exception of those referred to earlier on the Authority and Group Segmental Reporting disclosures.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed but we have made some suggestions to improve the disclosure on controls and measures in place, to demonstrate compliance with the Council's financial regulations and other policies for members and officers disclosed controlling interests. The Council has updated the Related Parties disclosure note to reflect compliance with the Council's standing orders and other policies/ procedures for each member and officer declarations.
6.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.

Section 3: Value for Money

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On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with the exception of the matter reported below on Children Protection, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In May 2012, a joint report by Ofsted and the Care Quality Commission concluded that arrangements for protection of children in the Cumbria County Council area were judged to be inadequate. A further report by Ofsted in May 2013 confirmed that, although the Council had made some improvements, overall arrangements for the protection of children remained inadequate.

We have submitted evidence to our internal moderation panel to ensure a consistent approach across all authorities. The panel supports an "except for" modified VFM conclusion qualification on this Children Protection issue.

Value for Money

Value for Money conclusion

The Code of Audit Practice 2010 (the Code) describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give our VFM conclusion based on the following two criteria specified by the Audit Commission which support our reporting responsibilities under the Code.

- **The Council has proper arrangements in place for securing financial resilience.** The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
- **The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness.** The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the following three expected characteristics of proper arrangements as defined by the Audit Commission:

- Financial governance;
- Financial planning; and
- Financial control.

Overall our work highlighted that, on key financial resilience key indicators the Council is in the mid-range against its benchmarked comparator authorities. The Council faces significant financial challenges and its Medium Term Financial Plan is needing to focus resources on Council Priorities.

Challenging economy, efficiency and effectiveness

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. We have reviewed the Council's:

- VFM on safeguarding of children and the funding of children placements;
- progress on delivering the BDUK project;
- contract monitoring arrangements; and
- key performance and financial documentation to inform our financial resilience review.

Our detailed findings on the above areas is included overleaf and also in our separate Financial Resilience Report.

Overall VFM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in most 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 2013, with the exception of the arrangements for the protection of children in Cumbria.

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Specific risks highlighted in the Audit Plan		
<p>VFM on safeguarding of children and the funding of children placements</p> <p>Risks identified as a result of the two recent regulators Children Protection "Inadequate" assessed Inspections, with VfM related concerns raised on quality of effective services and the high cost of service provision.</p>	<ul style="list-style-type: none"> We have reviewed the findings from the original Inspection reported in May 2012 and the Ofsted service specific Children Protection May 2013 inspection. We have reviewed the updates provided to the Audit and Assurance Committee in March 2013 and performance management dashboards. We have met with the Corporate and Assistant Directors for Children's Services to discuss progress made on findings from both inspections. We have reviewed our supporting documentation on the current position including the latest Ministerial notification. 	<p>We acknowledge the follow up inspection did indicate progress was being made on the original improvement plan but not at the pace required..</p> <p>The original Ofsted and Care Quality Commission Inspection in May 2012 found inadequate arrangements in some areas but the follow up inspection in May 2013 found inadequate arrangements in all areas assessed. We have discussed this with senior management who have stated the second inspection was a service specific review carried out by Ofsted carried under a new more robust inspection regime.</p> <p>The Summary to the May 2012 inspection does include a number of areas assessed as adequate or good including Director and staff commitment and support arrangements for parents struggling with appropriate care standards for their children.</p> <p>However, we are planning to issue an "except for" VfM conclusion following the recent Ofsted inspections on protection of children under Cumbria County Council's care as all of the following areas have been assessed as inadequate, including:</p> <ul style="list-style-type: none"> • Overall effectiveness; • The effectiveness of the help and protection provided to children, young people, families and carers; • The quality of practice; and • Leadership and governance arrangements. <p>We acknowledge under the new Ofsted inspection regime if floor targets are not met as is the case for Cumbria County Council, then all categories assessed cannot get above inadequate.</p> <p>We can conclude that, the Council is taking appropriate steps in terms of additional financial resources and leadership capacity to improve the arrangements for the protection of children in Cumbria. Management does recognise that there remains some variability of practice within Child Protection and Safeguarding service provision, but there is clear evidence of improvements being made. The Council acknowledges that these improvements need to be sustained.</p> <p>The Ministerial letter dated 13 September confirms that, it is not necessary for any change in intervention at this stage, in just renewing the improvement notice as opposed to any escalated form of direct intervention.</p>

Residual Risk identified	Assurances obtained	Conclusion on residual risk
Specific risks highlighted in the Audit Plan		
Delivering the BDUK project Risk of not project managing the Connecting Cumbria project to deliver.	<ul style="list-style-type: none"> We have maintained a monitoring brief with senior officers on the progress made on delivering the "Connecting Cumbria" Broadband UK project. We have reviewed Progress Reports on Connecting Cumbria as reported to Members. 	<p>There have been delays in securing the final approval on the funding of this circa £60m project, which has required the Council to re-profile its Capital Programme over 2013 to 2015.</p> <p>Delivering Connecting Cumbria is a key priority for the Council supporting its economic ambitions. The Council needs to deploy highly effective and innovative project management to co-ordinate delivery of this massive project which is scheduled to be completed in a relative short timeframe.</p>
Contract monitoring arrangements Risk of the Council not adequately managing contract monitoring arrangements especially in the context of the current contractual dispute.	<ul style="list-style-type: none"> We have maintained a monitoring brief with senior officers on the progress made on the significant contractual dispute. 	<p>We are satisfied that the Council is dedicating sufficient senior management and specialist professionals and staff input to rebut the disputed contract claim and to provide a robust counter claim. This remains as a significant issue for the Council to manage but we are satisfied from a VFM perspective that the Council is managing the related financial risks up to this stage.</p>

Section 4: Fees, non audit services and independence

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There is no variation in actual fee against the planned fee for the 2012-13 audit.

Fees, non audit services and independence

We confirm below our final fees charged for the audit services to undertake a Strategic Review of the Internal Audit Service.

Fees

	Per Audit plan £	Actual fees £
Council audit	152,820	152,820
Grant certification	4,800	4,800
Total audit fees	157,620	157,620

There is no variation in actual fee against the planned fee for the 2012-13 audit. Note the certification work is on-going. The final fee will reported to the Audit Committee later in the year in our annual certification.

Fees for other services

Service	Fees £
Strategic Review of the Internal Audit Service	20,000

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 5: Communication of audit matters

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We have complied with all of the International Standards on Auditing which relate to our communications with those charged with governance the Audit and Assurance Committee.

Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	In addition to the existing controls assurance over the CAPITA run schools payroll , future procurement processes should consider requesting an International Standards on Assurance Engagement report or equivalent to support the Council's wider control environment over payroll.	Low	As the payroll contracts are procured by the individual schools the Council will provide advice to schools that they should include an ISAE report as part of the contract specification when procuring service contracts in the future.	Pam Duke – Senior Manager Accountancy December 2013
2	Ensure the assurance gathering arrangements to support future Annual Governance Statement disclosures is based around all of the 21 elements of good governance referred to in CIPFA's Delivering good governance in LG framework Addendum (December 2012) .	Medium	CIPFA's Delivering good governance in LG framework Addendum will be used to inform assurance gathering arrangements in the future.	Shamim Lyndsey - Chair of the Corporate Governance Group Niki Riley - Group Audit Manager On-going

Appendix B: Cumbria County Council Audit opinion

We anticipate we will provide the Council with an unqualified accounts opinion and an except for VFM conclusion audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

Opinion on the financial statements

We have audited the financial statements of Cumbria County Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Authority and Group Movement in Reserves Statement, the Authority and Group Comprehensive Income and Expenditure Statement, the Authority and Group Balance Sheet, the Authority and Group Cash Flow Statement, and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 3. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Cumbria County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director - Finance and auditor

As explained more fully in the Statement of the Assistant Director - Finance's Responsibilities, the Assistant Director - Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director - Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Cumbria County Council as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the explanatory for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Respective responsibilities of the Authority and the auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Basis of qualified conclusion

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In May 2012, a joint report by Ofsted and the Care Quality Commission concluded that arrangements for protection of children in the Cumbria County Council area were judged to be inadequate. A further report by Ofsted in May 2013 confirmed that, although the Council had made some improvements, overall arrangements for the protection of children remained inadequate.

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013.

Certificate

We certify that we have completed the audit of the financial statements of Cumbria County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jackie Bellard
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
4 Hardman Square
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Appendix B continued: Pension Scheme Audit opinion

We anticipate we will provide the Pension Scheme with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Cumbria Local Government Pension Scheme for the year ended 31 March 2013 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

This report is made solely to the members of Cumbria County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director - Finance and auditor

As explained more fully in the Statement of the Assistant Director - Finance's Responsibilities, the Assistant Director - Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director - Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements.

If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on other matters

In our opinion, the information given in the explanatory foreword [and the content of the Annual Report] for the financial year for which the financial statements are prepared is consistent with the financial statements.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2013 and the amount and disposition of the fund's assets and liabilities as at 31 March 2013; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Jackie Bellard
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
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Spinningfields
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Appendix C: Overview of audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work.

Changes to Audit Plan

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Cost of services - operating expenses	Operating expenses	Other	Operating expenses understated	No	None
Cost of services – employee remuneration	Employee remuneration	Other	Remuneration expenses not correct	No	None
Cost of services – other revenues (fees & charges)	Other revenues	None		No	None
(Gains)/ Loss on disposal of non current assets	Property, Plant and Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Interest payable and similar charges	Borrowings	None		No	None
Pension Interest cost	Employee remuneration	None		No	None
Interest & investment income	Investments	None		No	None
Return on Pension assets	Employee remuneration	None		No	None
Dividend income from Joint Venture	Revenue			No	None
Impairment of investments	Investments	None		No	None
Investment properties: Income expenditure, valuation, changes & gain on disposal	Property, Plant & Equipment	None		No	None
PFI revenue support grant and other Government grants	Grant Income	None		No	None
Capital grants & Contributions (including those received in advance)	Property, Plant & Equipment	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
(Surplus)/ Deficit on revaluation of non current assets	Property, Plant & Equipment	None		No	None
Actuarial (gains)/ Losses on pension fund assets & liabilities	Employee remuneration	None		No	None
Other comprehensive (gains)/ Losses	Revenue/ Operating expenses	None		No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	PPE activity not valid and valuation within the PFI model	No	None
Property, Plant & Equipment	Property, Plant & Equipment	Other	Revaluation measurements not correct	No	None
Heritage assets & Investment property	Property, Plant & Equipment	None		No	None
Intangible assets	Intangible assets	None		No	None
Investments (long & short term)	Investments	None		No	None
Debtors (long & short term)	Revenue	None		No	None
Assets held for sale	Property, Plant & Equipment	None		No	None
Inventories	Inventories	None		No	None

Audit findings

Account	Transaction cycle	Material misstatement risk?	Description of risk	Change to the audit plan	Audit findings
Borrowing (long & short term)	Debt	None		No	None
Creditors (long & Short term)	Operating Expenses	Other	Creditors understated or not recorded in the correct period	No	None
Provisions (long & short term)	Provision	None		No	None
Pension liability	Employee remuneration	None		No	None
Reserves	Equity	None		No	None



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