

The Audit Findings Report for Cumbria County Council

Year ended 31 March 2017

September 2017

Gareth Kelly

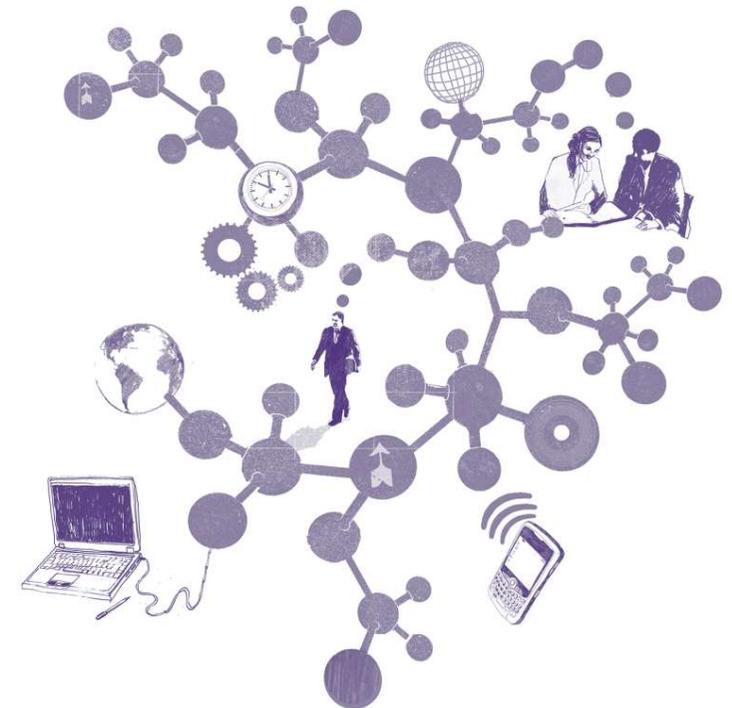
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25 September 2017

Dear Members of the Audit and Assurance Committee

Audit Findings for Cumbria County Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance, which for Cumbria County Council is the Audit and Assurance Committee, to oversee financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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 and giving a value for money conclusion. 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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Gareth Kelly

Engagement Lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We plan to give an unmodified opinion on the financial statements with no adjusted misstatements identified that impact upon the net reporting position in the primary financial statements. We are pleased to report that the Council has again achieved a high quality standard of financial reporting for 2016/17 in terms of compliance with the CIPFA Code of Practice.

We have considered the impact of the "inadequate" Children Services Ofsted regulator inspection, published in May 2015. We have also taken into account the outcome of the significant contractual dispute with Amey that concluded in November 2016, and the Council's 'lessons learned' review and management's response as communicated in September 2017.

As a result we are planning to issue a qualified 'except for' Value for Money conclusion on these two matters identified above.

With the exception of these two matters reported above, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017.

Purpose of this report

This report highlights the key issues affecting the results of Cumbria County Council ('the Council') and the preparation of the Group and Council's financial statements for the year ended 31 March 2017. 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 (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required to consider other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Statement), whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group and Council acquired in the course of performing our audit; or otherwise misleading.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act).

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 20 March 2017.

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

- obtaining and reviewing the management letter of representation;
- updating our post balance sheet events review, to the date of signing the opinion; and
- Whole of Government Accounts submission.

We received draft financial statements within the specified deadlines, accompanied with quality working papers in advance of our work. The statement of accounts were issued for audit on 28 June 2017 post the formation of an administration for the Council, but a final draft version was made available from early June 2017. We also received working papers to support the accounts by the end of May 2017. This does demonstrate the Council's ability to deliver on the new tighter deadlines of issuing accounts for audit by 30 May 2018.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjusted misstatements that impact upon the group and Council's reported net financial position.

Two misstatements were identified to primary statements that management has amended in the final set of financial statements. Both are classification adjustments only as outlined below:

- £14.729 million was adjusted within Property, Plant and Equipment (PPE) to reclassify some Port of Workington assets from infrastructure to land and buildings and surplus assets. This has no impact upon the net financial position, or to the total of the PPE balance; and
- A prior period adjustment was identified to the 31/3/16 balance sheet to move £15 million classified as cash into short term equivalents to account for a bank account incorrectly classified. The 31/3/17 classification was correct.

We also identified two misstatements, which have remained unadjusted by management. These are detailed below:

- the PPE balance for buildings and the Revaluation Reserve are both overstated by £0.9 million. This is due to an error in a manual calculation in the valuation of one school; and
- the Capital Grants and Contributions Unapplied Account (CGUA) includes £1.631 million of revenue contributions to capital projects, which should be designated as an earmarked reserve. The items within this balance are not capital grants or capital external contribution, they are earmarked revenue contributions.

The decision to not adjust for the above items does not impact upon our audit opinion as the items are not material. Management set out their reasons for not amending the financial statements on page 22, and within the letter of representation.

Any other adjustments identified are to disclosure notes only and these are set out on page 23. We have also recommended a number of other adjustments to improve the presentation of existing disclosure within the financial statements, but these are minor in nature and do not require further reporting.

The key messages arising from our audit of the Council's financial statements are:

- the Council has again achieved a high quality standard of financial reporting for 2016/17 in terms of compliance with the CIPFA Code of Practice; and
- working papers were produced to a high standard, with an effective response time to audit queries, and
- there are no recommendations within our report relating to the financial statements with one recommendation relating to our value for money conclusion as shown in appendix A.

Further details are set out in section two of this report. Appendix B sets out that, we anticipate providing an unqualified audit opinion in respect of the financial statements.

Objection on the 2016/17 financial statements

On 4 July 2017 we received an objection to the Council's 2016/17 financial statements by a local elector requesting that we issue a public interest report. The objection is in relation to value for money of a highways improvement plan in Kendal.

We have completed an initial review of the objection and we are satisfied that we are able to issue our opinion on the financial statements and our value for money conclusion. Our work on the objection is on-going and we will update the Objector and the Council at key stages of the process.

We will not be able to issue our closure certificate, which formally concludes our audit, until such time as we have finalised our work on the objection. We anticipate the objection to be concluded later in 2017/18, at which time we will be able to issue the closure certificate.

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes if the Annual Governance Statement (AGS) and Narrative Statement is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Statement and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Statement are in line with the requirements of the CIPFA Code of Practice.

Additional narrative was added to the Annual Governance Statement to reflect the partial assurance provided by the Head of Internal Audit's annual assurance report. Minor enhancements to the Narrative Statement have been made to present non-financial key performance indicators with comparators. Further details are set out in section two of this report at page 19.

Controls

Roles and responsibilities

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.

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.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Follow up of 2015/16 issues

One area reported in the 2015/16 Audit Findings Report related to a breach in approved treasury management threshold values, which occurred as a result of the documentation held by the finance team differing to the approved values in the treasury management strategy for 2015/16. This issue has not reoccurred during 2016/17.

Further details are provided at page 20 of this report.

Value for Money

Our review of the Council's arrangements to secure economy, efficiency and effectiveness has highlighted the following issues which will give rise to a qualified 'except for' VFM conclusion.

We have considered the on-going impact of the "inadequate" Children Services Ofsted regulator inspections as reported in May 2012, June 2013 and May 2015 on our VFM conclusion.

We have also considered the outcome of the significant contractual dispute with Amey from November 2016 and the Council's 'lessons learned' report from September 2017.

We have submitted evidence to our internal national moderation panel and it supports a qualified 'except for' VFM conclusion qualification on both these looked after children and contract management related issues.

We have compared the Council's arrangements for securing value for money with the guidance on the specified criteria published by the Comptroller and Auditor General in November 2016. With the exception of the matters reported on looked after children and contract management, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

We have received an objection to the financial statements from a local elector, that at the time of this report is in progress.

Further details of our work on other statutory powers and duties is set out in section four of this report

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Assistant Director Finance (Section 151 Officer).

We have made recommendations, which are set out in the Action Plan at Appendix A. Recommendations have been discussed and agreed with the Assistant Director Finance (Section 151 Officer) and the finance team.

Acknowledgement

We would like to take this opportunity to record our appreciation for the excellent assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We have identified two classification misstatements in the primary statements which management has adjusted. These adjustments do not have any impact upon the net reported position in the primary financial statements.

We have also identified two other misstatements that have not been adjusted by management. The decision to not amend does not impact upon the audit opinion, as they not material.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our Audit Plan, we determined overall materiality to be £15.542 million (being 1.75% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and identified a revision of our overall materiality to £14.907 million, still being 1.75% of gross revenue expenditure, but expenditure levels have decreased in 2016/17, so it is appropriate to reduce materiality also).

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We reported in our audit plan the amount below which misstatements would be clearly trivial to be £0.777 million. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation, and the revision of the clearly trivial level is to £0.745 million.

As we reported in our Audit Plan, we identified the following items where we decided that lower materiality levels were appropriate. These remain the same as reported in our Audit Plan.

Balance/transaction/disclosure	Explanation	Materiality level
Disclosure of Related Party Transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 Individual misstatements will be assessed for materiality to either party involved in the transaction.
Disclosures of officers' remuneration, salary bandings and exit packages in the notes to the financial statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000 for senior officers remuneration £100,000 for exit package costs (full cost including actuarial strain)

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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 as outlined below.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cumbria County Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition, • opportunities to manipulate revenue recognition are very limited, and • the culture and ethical frameworks of local authorities, including Cumbria County Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk for Cumbria County Council.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed journal entry processes and selected unusual journals entries for testing; • reviewed accounting estimates, judgments and decisions made by management, and • reviewed unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride 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>The Council introduced additional manual journal authorisation processes and checks during 2015/16, and testing confirms they are operating as planned in 2016/17.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks continued

We have also identified three other significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks below and on page 13.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Valuation of property, plant and equipment and investment property</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 the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate; • reviewed the competence, expertise and objectivity of any management experts used; • for the valuation undertaken we: <ul style="list-style-type: none"> - reviewed the instructions issued to valuation experts and the scope of their work; - discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions; - reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding; - undertook testing of revaluations made during the year to ensure they were input correctly into the Council's asset register; and - evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Our audit work identified one error in the manual calculation of one school's valuation. As a result buildings within PPE and the Revaluation Reserve are overstated by £0.9 million.</p> <p>We identified no further issues in the testing associated with this PPE valuation related risk area.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.</p> <p>In response to the move to earlier close-down, there is a greater degree of estimation in the information provided to the actuary.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed the controls put in place by management to ensure that the pension fund liability is not materially misstated and walkthrough test carried out on these controls; • reviewed the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We gained an understanding of the basis on which the valuation was carried out; • undertook procedures to confirm the reasonableness of the actuarial assumptions made; and • reviewed the consistency of the pension fund asset and liability and disclosures in notes to the financial statements to the actuarial report from your actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>
5.	<p>Material contractual dispute</p> <p>The Council has been involved in a significant contractual dispute, with the outcome determined during 2016/17. The accounting and reporting within the financial statements is an area of audit focus.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed the accounting entries relating to the contractual dispute and appropriate reporting. 	<p>Our audit work has not identified any issues in respect of the accounting entries or disclosure within the financial statements in relation to the contractual dispute outcome.</p>

Audit findings against other risks

In this section we detail our response to the three other risks of material misstatement which we identified in the Audit Plan as outlined below and on page 15.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Employee remuneration</p>	<p>Employee remuneration accruals understated (Remuneration expenses not correct)</p> <p>Our work addressed the risk that not all material payroll transactions relating to the 2016/17 accounting period, which have been recorded in the payroll subsystem, have been captured in the general ledger. This would lead to an understatement of the employee remuneration costs in the Comprehensive Income and Expenditure Statement.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented the system and identified controls and walkthrough tests completed of both Trent and Capita payroll systems; • reconciled the payroll system figures to the financial ledger; • substantive testing of year end payroll accruals; and • trend analysis of payroll costs over the period, and year-on-year analysis. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Creditors understated or not recorded in the correct period (Operating expenses understated)</p> <p>Our work addressed the risk that not all material expenditure transactions relating to the 2016/17 accounting period have been accounted for, leading to the expenditure figures in the Comprehensive Income and Expenditure Statement to be understated.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented the system and identified controls and walkthrough test of operating expenses; • reviewed accounting estimates, judgments and the accruals accounting process including the processes for accruing goods received not invoiced; • post year-end payments testing to confirm the completeness of accruals; and • tested expenditure and accruals to goods receipt and subsequent invoice and payment. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p>	<p>CIPFA’s ‘Telling the Story’ project aimed to streamline the financial statements and improve accessibility to the user, and this resulted in changes to the 2016/17 Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures was also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements; reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure it was in line with the Council’s internal reporting structure; reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS); tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES; tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger; tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements; and reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>The Council had chosen to include the Expenditure and Funding Analysis (EFA) twice within the financial statements. The version within the primary statements was removed as the disclosure note on the EFA had sufficient detail.</p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Group audit scope and risk assessment

ISA (UK&I) 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Cumbria County Holdings Limited	No	Analytical	N/A	<p>We performed a desktop review including analytical procedures and gained an understanding of the consolidation process.</p> <p>This included obtaining the audited financial statements for the components of Cumbria County Holdings.</p>	Our audit work did not identify any issues in respect of the analytical procedures performed on the group consolidation.

The local authority accounting for schools highlights that under IFRS 10, local authority maintained schools meet the definition of entities controlled by local authorities. However, rather than requiring local authorities to prepare group accounts, the CIPFA Code of Practice on Local Authority Accounting requires local authorities to account for local authority maintained schools in their single entity accounts.

Accounting policies, estimates and 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 within the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Recognised when the Council transfers the significant risks and rewards of ownership to the purchaser.</p> <p>Revenue from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction.</p>	Our review of revenue recognition policies has not highlighted any issues which we wish to bring to your attention.	 Green
Judgments and estimates	<p>Key estimates and judgments not already included within other sections of this report are:</p> <ul style="list-style-type: none"> • useful life of PPE, • PFI transactions, • provisions, • accounting for schools, and • accounting for NNDR appeals. 	<p>Work on other judgments and estimates has not highlighted any issues which we wish to bring to your attention.</p> <p>Work on IAS19 and asset valuation judgments and estimates are reported on pages 12 and 13.</p>	 Green
Going concern	<p>As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK&I) 570).</p> <p>We reviewed management's assessment of the going concern assumption and the disclosures in the financial statements. The financial statements state “the accounts are prepared on a going concern basis”.</p>	<p>The Assistant Director Finance, the section 151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continues to adopt the going concern basis in preparing the financial statements.</p> <p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	 Green
Other accounting policies	We have reviewed any other accounting policies not covered in work already noted in this report.	We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years.	 Green

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Assurance Committee and 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 related parties	From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	A letter of representation has been requested from the Council including representations in respect of the Group. The reasons for not amending the financial statements for the items identified on pages 23 are included in the Letter of Representation.
5.	Confirmation requests from third parties	We obtained direct confirmations for loans, investments and bank accounts. This permission was granted by management and the requests were sent, and all positive confirmations have been received..
6.	Disclosures	Our review found no material omissions in the financial statements. Any amendments to existing disclosures are outlined on page 23.

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. • The information in the Narrative Statement is materially inconsistent with the information in the audited financial statements or our knowledge of the Group and Council acquired in the course of performing our audit, or otherwise misleading. <p>The Annual Governance Statement was amended to update the Action Plan and to incorporate the outcome of the Head of Internal Audit opinion providing 'partial' assurance and management's response in determining whether it is a significant governance issue.</p> <p>Amendments were made to the Narrative Statement to improve readability around non-financial key performance indicators to reflect only minor changes.</p>
8.	Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures, on behalf of the NAO on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £350 million we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>The work is on-going and there are no issues arising to date, with the submission for the Whole Government Accounts expected later in September 2017 after the completion of the closing procedures for the financial statements audit.</p>

Internal controls

We considered and walked through the internal controls for Employee Remuneration, Operating Expenses, IAS19 and Property Plant and Equipment as set out on pages 12 to 14.

The controls were found to be operating effectively and we have no matters to report to the Audit and Assurance Committee.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<p>During 2015/16 it was identified from an audit query, that although the approved treasury management strategy for money market funds and enhanced money market funds was £15 million per approved institution, documentation used by the finance team had approvals of £20 million. Officers have stated that there was no intention to amend the treasury management strategy for 2015/16 to reduce investment limits and that the £15 million quoted in the strategy was a typographical error.</p> <p>The breach in the money market funds covered 202 days of the financial year, with the maximum individual breach per institution of £5 million. The total maximum daily breach recorded was £25 million, being an additional £5 million for five separate institutions. The breach in the enhanced money market funds covered 49 days of the financial year, with the maximum individual breach of £5 million for one institution.</p> <p>Consequently, the breach resulted in no financial loss with no impact upon the financial statements for 2015/16 and work carried out by the Council's treasury advisors confirmed that no additional risks occurred during the periods of the breach. The breach only occurred during 2015/16 as the 2016/17 strategy reflects the intended £20 million values for money market and enhanced money market funds.</p>	<ul style="list-style-type: none"> • The breach only occurred during 2015/16 as the 2016/17 strategy reflects the intended £20 million values for money market and enhanced money market funds. • Testing has confirmed that no breaches were found in 2016/17.

Assessment

- ✓ Action completed
- X Not yet addressed

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

Our audit included consideration of internal control 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 matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

Adjustments to the draft accounts have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

Two adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000
1 The balance sheet incorrectly identified £14.729 million of assets relating to the Port of Workington as infrastructure assets. £3.202 million of this amount should have been classified as surplus assets, the remaining £11.527 million should have been classified as specialised land and buildings. Therefore, an amendment to reclassify the categories of Property, Plant and Equipment on the balance sheet was required. This has no net impact on the PPE or net position in the balance sheet.	0	-14,729 +3,202 +11,527	0
2 We have identified one bank account which at 31 st March 2016 had a £15 million balance and was incorrectly classified as cash and cash equivalents in the balance sheet. The account had a redemption period of 100 days. The Council's accounting policies state that, any deposits made for greater than 3 months should be treated as short-term investments. As this period is greater than 3 months, a prior period adjustment was required to reduce the cash balance by £15 million, and increase the short-term investment balance by £15 million, which subsequently affected 2016/17 opening balances. This has no impact on the net position in the balance sheet.	0	-15,000 +15,000 31/3/16 only	0
Overall impact	£ 0	£0	£ 0

Unadjusted misstatements

The table below and overleaf provides details of the three adjustments identified during the audit, which have not been made within the final set of financial statements. The Audit and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 A manual calculation error was identified in the valuation of one school within the Council's land and buildings balance. The error has led to the Property, Plant and Equipment balance and the Capital Adjustment Account to be overstated by £900,000. Therefore, the total assets and unusable reserves held by the Council are overstated.</p> <p>The decision to not adjust for this issue does not impact upon our audit opinion.</p>		-900 +900	The error is not material to the Accounts or the PPE balance and therefore has not been adjusted
<p>2 It was identified that the Council has been incorrectly crediting revenue contributions to the Capital Grant and Contributions Unapplied Account (CGUA). This account is to hold capital grants which have been judged by management to have met their conditions, but not been used to finance capital expenditure in-year. Revenue contributions to capital expenditure which have not been applied in financing during the year should be held by the Council as an earmarked reserve. This has caused the CGUA to be overstated and earmarked reserves to be understated. This has no net impact on the balance sheet position, and the adjustment is in classification only.</p> <p>The decision to not adjust for this issue does not impact upon the audit opinion.</p>		-1,631 +1,631	The error is due to a difference in technical interpretation of the Code. It is not material to the Accounts or the PPE balance and therefore has not been adjusted
Overall impact	£0	£0	

Misclassifications and 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 Disclosure	n/a	Expenditure and Funding Analysis	The EFA was duplicated as it was included within the primary statements and within Note 1. The version in the primary statements was removed.
2 Disclosure	n/a	Annual Governance Statement	The Annual Governance Statement was amended to update the Action Plan and to incorporate the outcome of the Head of Internal Audit opinion providing 'partial' assurance and management's response in determining whether it is a significant governance issue.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

We have considered the impact of the "inadequate" Children Services Ofsted regulator inspection, published in May 2015. We have also taken into account the outcome of the significant contractual dispute with Amey that concluded in November 2016, and the Council's 'lessons learned' review and management's response as communicated in September 2017.

As a result we are planning to issue a qualified 'except for' Value for Money conclusion on these two matters identified above.

With the exception of the matters reported above, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31 March 2017.

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2016. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in January 2017 and identified the significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 20 March 2017.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03 in the following areas;

- Ofsted inspection of children's services;
- Health and social care integration;
- Medium term financial plan (MTFP) including service transformation; and
- Contract management and monitoring.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Significant qualitative aspects

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- processes put in place to identify and implement programmes and projects to address and reduce the on-going budget deficit as outlined in the MTFP;
- reporting and monitoring of savings and the financial position during the financial year;
- the robustness of assumptions made in calculating savings and whether these were realistically deliverable;
- update reports and letters from Department for Education and Ofsted on Children's Services;
- health and social care integration participation and associated evidence;
- lessons learned report about the contractual dispute presented to the 12 September 2017 Audit and Assurance Committee;
- Internal Audit findings during 2016/17; and
- contract management and monitoring procedures.

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work later in this section on pages 27 to 30.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- except for the matters we identified in respect of looked after children and contract management, the Council had proper arrangements in all significant respects. We therefore propose to give a qualified 'except for' conclusion on your arrangements for securing economy, efficiency and effectiveness in your use of resources. The text of our proposed report can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement, which can be found in the Action Plan at Appendix A.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and through our ongoing review of documentation.

Significant risk	Work to address	Findings and conclusions
<p>Ofsted inspection of children's services Ofsted issued a report on the Council's children's services in May 2015 which rated these as 'inadequate'. This is the third successive assessment of the Council as inadequate following reported assessments in May 2013 and May 2012. Until such time as Ofsted has confirmed that adequate arrangements are in place, this remains a significant risk to the Council's arrangements for looked after children.</p>	<p>We reviewed the Council's project management, performance monitoring arrangements and risk assurance frameworks to monitor progress against the agreed implementation plan.</p> <p>This links to the Council's arrangements for understanding and using appropriate and reliable financial information and performance information, including information from regulatory bodies to support informed decision making as well as planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>The Council had a re-inspection in March 2015 on both child protection and looked after children. In summary, Ofsted's overall judgment is that children's services are inadequate. Child protection had improved and was assessed as requires improvement. Some elements of adoption and care leavers assessments were assessed as requires improvement but looked after children and achieving permanence and related leadership, management and governance was scored as inadequate at that time. The report was positive on a number of fronts including; in terms of stronger leadership now in place, significant progress being made on collaborative agency working and direct work with children is of good quality.</p> <p>Management had taken action to provide additional financial resources and leadership and middle management capacity to improve the arrangements for looked after children in Cumbria, but there was at this time no sustained improvement fully across the whole service, as recognised by the inspectors, Children Improvement Board and management.</p> <p>We acknowledge that, Children Services is working hard to deliver the Improvement Plan, with recruitment and retention of staff as key challenges. On-going recruitment during the year through the social worker academy project and from targeted recruitment has filled some key staffing shortages, particularly in the south and west of Cumbria. The strategic direction is informed through continued learning from internal and Ofsted case file audits, improved permanency planning reducing drift in care planning and numbers of Children Looked After.</p> <p>The Improvement Plan focuses on four key themes of leadership and governance, supporting children looked after, working in partnership and quality of practice. Monitoring and scrutiny of actions is regularly undertaken with the progress, impact, milestones and timescales regularly reported. The Plan is fluid and up to date, taking into account the results of other reviews such as the quarterly Ofsted visits. To support the work in the Improvement Plan, the Workforce and Practice Board oversees the delivery of the Workforce Strategy. The Placement Commissioning Board oversees placement performance and the Continuous Improvement Board reviews quality and performance issues, which includes the Improvement Plan and any other Ofsted related actions.</p> <p>The Ofsted letter of 21 July 2016 summarised the findings of the 10 monthly monitoring visits to Cumbria between July 2015 and June 2016 and indicated a positive direction of travel. Although there are summary findings for each of the four phases of the Ofsted monitoring visits, the letter noted that in summary "inspectors were satisfied that the local authority has shown steady improvement in line with its improvement plan" and that "the local authority is making expected progress to improve services for children and young people in Cumbria".</p> <p>Quarterly inspections from Ofsted were in place from July 2016 onwards, and the results detailed in Ofsted letters dated 14 November 2016, 24 February 2017 and 13 June 2017 for visits 11, 12 and 13. The 14 November 2016 letter concentrated on help and prevention services, the 24 February report on help and protection services and the 13 June report on children looked after and care leavers. The 13 June 2017 report noted that, in summary "the local authority is making expected progress in some areas of practice".</p> <p>Internal Audit carried out risk based work during 2016/17 on the multi agency safeguarding hub. This review resulted in 'partial assurance', with actions identified to strengthen assurance arrangements within the hub and management is making progress in addressing these matters.</p> <p>We are proposing to issue an "except for" VfM conclusion on the arrangements for looked after children, as without a formal re-inspection by Ofsted during 2016/17 the 'inadequate' rating is still in place. This judgment has been moderated through a Grant Thornton National Consistency Panel.</p> <p>We concluded that there were weaknesses in the Council's arrangements for understanding and using appropriate and reliable financial information and performance information, including information from regulatory bodies to support informed decision making as well as planning, organising and developing the workforce effectively to deliver strategic priorities.</p>

Key findings continued

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Health & Social Care Integration Health and care services within Cumbria are subject to significant transformation programmes. The intention of all programmes is to address issues of cost and quality of health and care services. The Council is a key partner on integration to ensure the financial sustainability of health and care services. Working with partners from different organisations and service areas with potentially conflicting priorities, the projects are complex and high profile.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council to establish how it is identifying, managing and monitoring these integration related risks and activities.</p> <p>This links to the Council's arrangements for working effectively with third parties to deliver strategic priorities, managing risks effectively and maintaining a sound system of internal control.</p>	<p>Health and care services within Cumbria are subject to significant transformation programmes. North Cumbria Hospitals Acute Hospitals NHS Trust's 'Success Regime' project covered east and west Cumbria and formally ended in June 2017, with the Sustainability and Transformation Plan continuing with West, North and East Cumbria Health and Care Partnership. University Hospitals of Morecambe Bay NHS Foundation Trust is a key partner in the Vanguard programme 'Better Care Together' covering areas including south Cumbria. In addition a Cumbria Strategy for Mental Health is a whole economy programme to deliver the best quality and sustainable mental health care. The intention of all programmes is to address issues of cost and quality of health and care services.</p> <p>Integration is key for all agendas and Cumbria County Council are engaged, with director participation. For the Success Regime this involved director representation on the Programme Board and Provider Delivery Board and inclusion within the Transformation Board. For 'Better Care Together' there is representation on the Programme Board and the Integrated Accountable Care Board, which has shadow status. The Council are represented on the Mental Health Partnership Group. Key focus for all is the delivery of the integration agenda, identifying, and designing work streams, and appropriate governance structures.</p> <p>In addition, the publication of Sustainable Transformation Plans (STP) underpin the schemes with plans in place for Cumbria with one covering the north, east and west and another covering the south of the county. This is a requirement for a 5 year sustainability and transformation plan that are place based in order to meet the requirements of the 5 Year Forward View. Plans cover the integration of local authority services and to reflect the health and wellbeing strategies. The Health and Wellbeing Board set the overall joint health and wellbeing strategy for Cumbria.</p> <p>County wide structures are in place with Cumbria County Council and other key partners as part of the Joint Commissioning Board. The 'Better Care Fund' is a pooled budget fund operated by Cumbria County Council with funding from NHS Cumbria Commissioning Group. Other work streams reviewed as part of this process include the learning disabilities pooled budget and transforming care. Monthly meetings occur and an integrated Commissioning Manager is in place with more joint posts planned. This is a working-sub group of the Health and Wellbeing Board.</p> <p>The Council has conducted an internal review of integration to map and understand attendance and purpose, as this agenda is moving at significant pace and there are challenging timescales. The aim of the review was to assess the full integration agenda in terms of the scale of engagement and participation to ensure it is focussed and framed effectively and links to the Council's Programme Board agenda.</p> <p>Based on the review of the arrangements in place during 2016/17 for health and social care integration we concluded that the risk was sufficiently mitigated and that the Council has arrangements in this emerging, complex and diverse area.</p>

Key findings continued

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Medium Term Financial Plan including service transformation</p> <p>The Council's Medium Term Financial Plan (MTFP) is predicated on delivering changes to the way in which services are delivered. The Council has identified proposals for reducing spending and increasing efficiency. The programme includes a number of key projects, including internally reshaping the Council.</p> <p>The Council continues to face a challenging environment in the short to medium term with required savings for 2017/18 to 2019/20 of £52 million.</p> <p>There are considerable uncertainties over various revenue streams in the next few years. As a result, the Council has to apply a number of estimates and key judgements to compile the MTFP.</p>	<p>We reviewed the arrangements the Council has in place to compile the MTFP. This includes a review of how the Council is identifying, managing and monitoring financial information in order to regularly update the MTFP including reporting outcomes to Cabinet and Full Council.</p> <p>This links to the Council's arrangements for planning finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost and performance information to support informed decision making.</p>	<p>The Council continues to face significant financial challenges. The budget gap in the MTFP was updated in February 2017 for the 3 year period 2017/18 to 2019/20 with savings required over the 3 years of £52 million. The Council is confident that through its strategic planning processes it will identify new savings to achieve the £36m budget gap for 2018/19 to 2019/20, after securing a balanced budget for 2017/18 with the £16 million of savings identified for 2017/18. We acknowledge that, the Council is working on plans to identify and deliver on the £36 million required for 2018/19 and 2019/20. The MTFP assumes the level of the general fund balance will be no less than £10 million during the period.</p> <p>The Council has a general fund balance at 31 March 2017 of £9.4 million and useable earmarked reserves of £60.4m. The school earmarked reserves have decreased in year, from £6.4 million to £3.2 million. Overall, schools have negative balances of £2.3 million due to the ring fenced dedicated schools grant overspend of £5.7 million. This largely relates to the high needs service allocation and a three year recovery plan is in place to neutralise the impact of this overspend on earmarked reserves.</p> <p>The Council has a comprehensive approach to its medium term financial planning, budgeting and identification of saving plans, which are agreed at a corporate level, by senior officers and Members. For the five year period 2011/12 to 2016/17 the Council has identified £198 million of savings and has a strong history of achieving savings to date. Reporting financial outcomes including the current position on savings and budgets forms part of the quarterly budget monitoring updates.</p> <p>The Council is faced with the continuing challenge of finding further savings which will become increasingly difficult. It will be essential therefore to ensure that its savings plans continue to be clearly communicated, link to specific policy decisions, service reviews and planned rationalisation of the workforce and that the impact on service levels and quality is clearly identified and monitored.</p> <p>The strategy is aligned to the Council's corporate priorities, highlights the key financial risks, and adopts a prudent approach to funding streams. The Council has taken this approach to allow it to have the flexibility and resilience in order to address the variable nature of future funding. The Council has good planning assumptions built into the annual and three year budget processes. The Council is responsive to changes required as the strategic planning process considers optimistic, planned and pessimistic sensitivity analysis.</p> <p>Based on the review of the arrangements in place during 2016/17 for the compilation of the MTFP including identified savings, we concluded that the risk was sufficiently mitigated and that the Council has adequate arrangements in this area.</p>

Key findings continued

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review.

Significant risk	Work to address	Findings and conclusions
<p>Contract management and monitoring The Council was the defendant in a legal dispute concerning the provision of highway services that ended in 2012 with a commercial provider. The outcome of the dispute was determined in 2016/17. Wider contract management and the monitoring of external contracts are an area of audit focus.</p>	<p>We reviewed the arrangements the Council has in place to update and improve, where appropriate, its own processes for the management and monitoring of existing external contracts.</p> <p>We also reviewed how the Council is applying any lessons learnt from previous contract management approaches, including how these are applied to its current procurement arrangements.</p> <p>The work included a sample of existing external contracts.</p> <p>This links to the Council's arrangements for managing risks effectively and maintaining a sound system of internal control, demonstrating and applying the principles and values of good governance, as well as the Council's arrangements for working effectively with third parties to deliver strategic priorities.</p>	<p>The Council was the defendant in a significant contractual dispute with a former contractor, Amey. The contract ended in 2012. Over the term of the seven year contract the Council paid Amey £272 million. After a complex legal process, in November 2016 the final judgment received had gains and losses applied to both parties, but overall found in favour of Amey. The Council paid Amey £5.4m including interest, with an additional £6.2 million for the settlement of the costs of the case. The total settlement to Amey was therefore £11.6 million.</p> <p>In October 2016, before the final judgment was received, the Council commissioned a 'lessons learned' review of the events surrounding the procurement, operation and termination of the Amey contract. The Council responded positively to our suggestions at the scoping stage to improve the independence and robustness of the review. The review team included a suitably qualified individual to peer review the process as well as assurance over the process being gained from Internal Audit. As your External Auditors we have been kept fully informed of the final scope and the progress at key stages of what has been a very thorough review, but we have remained independent of the review to comply with our statutory roles and responsibilities. The review included 20 lessons learned and 27 associated recommendations identified by the review team and these actions have been designed to address a number of identified weaknesses with regard to contractual management arrangements. The review is comprehensive and details pertinent matters as well as key actions the Council is planning to take by May 2018. The Council acknowledges that, it needs to improve the robustness of its overarching contract management arrangements with appropriate capacity, capability, performance monitoring and risk and escalation management of all major contracts, and to improve arrangements for the management of any potential related contract disputes and litigation.</p> <p>The Council developed a comprehensive communication strategy around making the matter public. The Council held a press conference on 4 September which generated significant regional media coverage on the 'lessons learned' review. The 12 September 2017 Audit and Assurance Committee was the first opportunity to present the lessons learned review. This Committee had press and public in attendance and the Independent Peer Reviewer and Council's lead reviewer provided a comprehensive and measured presentation on the findings of the 'lessons learned' review; Management responded at this Audit and Assurance Committee meeting with a detailed plan of action that will be monitored by the Corporate Management Team as led by the Chief Executive. The Audit and Assurance Committee will also receive regular updates and assurances on progress against the agreed action plan. The Council is able to evidence a thorough review of lessons learned. Contract and risk management will continue to be a key area of focus for the Council including the implementation of the Action Plan from the lessons learned review and the monitoring and scrutiny of the actions taken.</p> <p>Our high level review work conducted as part of the 2016/17 Audit, focussed on some of the high value external contracts the Council has in place, to assess the arrangements to monitor these contracts and to effectively manage relationships. The Council's arrangements for contract management are designed to respond to the level of risk and the nature of each contract. Contract management can be centralised or locality based and involves both manual processes and electronic project management systems. As expected, there is not a 'one size fits all' approach due to the variety of the contracts and types of services commissioned. However, there is not an overarching corporate system to capture and record the outcomes of contract management, instead there is a reliance upon existing arrangements that are not always fully documented. The Council has a sub-group of Cabinet Members, chaired by the Cabinet Member with responsibility for Procurement and Commissioning (Deputy Leader) whose terms of reference are set out in the Constitution. The Action Plan in response to the Lessons Learned review will develop the robustness of the existing contract/commissioning management arrangements and in particular, major contracts, but not exclusively, waste management, highways and people-related contracts.</p> <p>Our work concluded that contract management arrangements are in place for all of the contracts reviewed; they were subject to regular monitoring, but KPIs were not always in place. There were examples of good contract relationships developed in those significant contracts with regular meetings and monitoring in place. Improvements can be made to the overarching principles and high level monitoring of significant contracts including the Directorate (.ie. corporate) monitoring of adult social care contracts, as our work found that although it is to be expected there is a high level of reliance placed on individual social workers and locality based contract monitoring to monitor individual contracts for client care, there is a need to enhance the monitoring at a corporate level. New commissioning processes are being introduced with a recent investment in commissioning resources in adult social care. Our high level review of waste management, superfast broadband and highways related contracts confirmed that elements of learning from the Amey case were being applied in advance of the Lessons learned review with improvements in contract management and resolution procedures in place. A view that is shared by the Independent Peer reviewer as outlined in his Statement of opinion within the Lessons Learned review..</p> <p>We concluded that, there were weaknesses in the Council's overarching arrangements for contract management. This matter is evidence of some weaknesses in proper arrangements for informed decision making and working with partners and third parties with elements of inadequate governance arrangements for contractual management and ineffective working with third parties. The local audit team's conclusion to issue an except for type VFM on this matter as outlined above has been through, and is supported by, a national Grant Thornton internal Public Sector Assurance Moderation Panel. See Appendix B for the except for qualified VFM opinion.</p>

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention with exception of considering whether the two except for qualifications are indicative of pervasive weaknesses and a possible overall adverse VfM conclusion. The local audit team's conclusion was not to issue an overall adverse qualified VfM conclusion as the two except for areas are not indicative of any wider governance or management arrangement systemic weaknesses. This matter and conclusion was also discussed and supported by the national Grant Thornton internal Public Sector Assurance Moderation Panel.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Although this report notes the progress made by the Council since the 31 March 2017 in terms of direction of travel, it is only arrangements in place during the 2016/17 financial year that are taken into account in reaching our value for money conclusion.

Section 4: Other statutory powers and duties

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

This section sets out our other statutory powers and duties. An objection to the 2016/17 financial statements has been received from a local elector.

Other statutory powers and duties

We set out below details of other matters which we, as auditors, are required by the Act and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	Public interest report	<p>The Engagement Lead has given serious consideration as to whether or not to issue a Public Interest Report following the Amey contractual dispute litigation outcome. The matter is material both in terms of the overall financial loss to the Council at £22 million and on learning from how to effectively manage a major commercial contract. The Engagement Lead's conclusion is that no Public Interest Report is required as:</p> <ul style="list-style-type: none"> • the Council has been open and transparent throughout the key stages of the lessons learned process as now reported; • a well managed communication strategy has been implemented to make the findings made public which attracted a high degree of regional media attention; • at the 12 September 2017 press and public attended Audit and Assurance Committee the Independent Peer Reviewer and Council's lead reviewer provided a comprehensive and measured presentation on the results of the 'lessons learned' review; • at the same Committee the Chief Executive presented management's response in a detailed action plan clearly linked to the review findings and recommendations; and • the financial statements and Annual Governance Statement for 2016/17 have adequate disclosures on the outcome of the case for 2016/17 including any financial and the overarching contractual management arrangements implications. <p>The Engagement Lead's conclusion to not issue a Public Interest Report on this matter as outlined above has been through, and is supported by, a national Grant Thornton internal Public Sector Assurance Moderation Panel.</p>
2.	Written recommendations	<ul style="list-style-type: none"> • We have not made any written recommendations at this stage that the Group or Council is required to respond to publicly.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none"> • We confirm that we have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none"> • We confirm that we have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none"> • We confirm that we have not used this duty.
6.	Objection to the accounts	<ul style="list-style-type: none"> • We received an objection from a local elector requesting that we issue a public interest report about a highways improvement plan in Kendal. • We have completed an initial review of the objection and we are satisfied that we are able to issue our anticipated opinion on the financial statements, and our value for money conclusion. • Our work on the objection is on-going and we will update the objector and the Council at key stages of the process. • We will not be able to issue our closure certificate, which formally concludes our audit, until such time as we have finalised our work on the objection, expected to be later in 2017/18.

Section 5: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

This section sets out the audit fee and our independence considerations. There are no changes to the audit fee or independence considerations as previously reported to you in the Audit Plan.

We confirm below our final fees charged for the audit and fees for other services including the provision of non-audit services.

Fees

	Budget £	Actual £
Council audit	114,615	114,615
Total audit fees (excluding VAT)	114,615	114,615

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

Grant certification

Fees in respect of other grant work, such as reasonable assurance reports, are shown below under 'Fees for other services'.

Independence and ethics

- Ethical standards and International Standard on Auditing ISA (UK& I) 260 require us to give you full and fair disclosure of matters relating to our independence.
- 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 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.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all other services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Grant certification – Teachers' Pension Return	4,900
• Harbour Accounts – agreed upon procedures	1,000
Non Audit related services:	
• Cost Assurance	500

The Teachers' Pension Return is grant certification work. The requirements are set out annually in the reporting accountants guidance from the Teachers' Pensions Agency. The Council has requested that we undertake this work for 2016/17. It is expected that an engagement letter will be produced in October 2017. The deadline for the work is 30 November 2017.

The harbour accounts work is based upon agreed procedures in order to satisfy the requirements of the Harbours Act 1964. This requires the Council to complete standalone accounts that specifically cover harbour activities. The engagement letter from 2015/16 is relevant to roll forward.

The cost assurance work is carried out on a contingent fee basis by auditors separate from the audit engagement team. The work involves reviewing the billing of telecommunications and utilities costs to ensure the Council has only paid for the services used. An engagement letter is in place.

Independence and other services

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

	Service provided to	Fees	Threat?	Safeguard
Audit related services				
Grant certification – Teachers' Pension Return	Cumbria County Council	4,900	No	This is a recurring fee and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total audit fee for the Council and to Grant Thornton UK LLP in overall terms. The work relates to audit related services for which there is a fixed fee and there is no contingent element to the fee.
Harbour Accounts – agreed upon procedures	Cumbria County Council	1,000	No	This is a recurring fee from 2015/16 and therefore a self-interest threat exists. However, the level of this recurring fee taken on its own is not considered to be a significant threat to independence as the fee for this work in comparison to the total audit fee for the Council and to Grant Thornton UK LLP in overall terms. The work relates to audit related services for which there is a fixed fee and there is no contingent element to the fee.
Non-audit services				
Cost Assurance	Cumbria County Council	500	No	The work was undertaken by a team who are separate from the audit team undertaking and the contingent nature of the work is value restricted. The work although transaction based involves a review of historic payments.
	TOTAL	£6,400		

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

This section summarises our communication requirements to you as 'those charged with governance'. We confirm that all required reporting is included within the Audit Plan or this Audit Findings Report.

Communication to those charged with governance

ISA (UK&I) 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.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, 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 Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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 at the time of our appointment. 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 NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). 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		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓
Matters in relation to the Group audit	✓	✓

Appendices

A. Action Plan

B. Audit Opinion

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	Implement the contract management 'lessons learned' report actions, and regularly update the Audit and Assurance Committee with progress	High	Agreed. The lessons learned Action Plan now forms part of the Annual Governance Statement Action Plan 2017/18. The delivery of the actions will be reported to the Audit and Assurance Committee on a quarterly basis.	May 2018 Katherine Fairclough Chief Executive

Appendix B: Draft proposed audit opinion

We anticipate we will provide an unqualified opinion on the accounts and an "except for" VfM conclusion in relation to looked after children and contractual management

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

We have audited the financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act").

The financial statements comprise the Authority Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Authority Movement in Reserves Statement, the Group Movement in Reserves Statement the Authority Balance Sheet, the Group Balance Sheet, the Authority Cash Flow Statement and the Group Cash Flow Statement, Section 5 Statement of Accounting Policies, and the related notes 1 to 44 and Group notes 1 to 17 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. 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 (Section 151 Officer) and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director Finance (Section 151 Officer) 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 (Section 151 Officer); and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 present a true and fair view of the financial position of the Authority and Group as at 31 March 2017 and of the Authority's and Group's expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Statement and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

Matters on which we are required to report by exception

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements for securing 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 20(1)(c) of the Act to be satisfied that the Authority has made 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that 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 2017.

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 has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources we identified the following matters:

Firstly, in May 2012, Ofsted and the Care Quality Commission issued a joint report following their inspection of the Authority's services for child protection. In May 2013, Ofsted issued a further report on child protection. The overall conclusion in both reports was that child protection arrangements were judged to be inadequate. In May 2015, Ofsted issued its report on the inspection of the Authority's services for looked after children. The report concluded that child protection arrangements had improved, but require further improvement. The arrangements for looked after children were judged to be inadequate. The overall judgement on the arrangements for children's services was also inadequate.

This matter identifies weaknesses in the Authority's arrangements for responding to service delivery issues raised by regulators. Issues raised from regulatory reports have not been fully resolved.

This matter is evidence of weaknesses in proper arrangements for informed decision making and sustainable resource deployment in understanding and using appropriate and reliable financial information and performance information, including information from regulatory bodies, to support informed decision making and performance management; as well as planning, organising and developing the workforce effectively to deliver strategic priorities.

Secondly, following a legal contractual dispute settled in November 2016 the Authority carried out a lessons learned review, which resulted in a number of agreed management actions in September 2017. These actions have been designed to address contractual management arrangements, which identified weaknesses on a specific contract, entered into by the Authority between 2005 and 2012. The actions also take into account the management of disputes, mediation and legal proceedings up to November 2016. The Authority acknowledges that, it needs to improve the robustness of its overarching contract management arrangements with appropriate capacity, capability, performance monitoring, risk and escalation management of all major contracts, and improved arrangements for the management of contract disputes and litigation, if required in the future.

This matter is evidence of weaknesses in proper arrangements for informed decision making and working with partners and third parties with inadequate governance arrangements for contractual management and ineffective working with third parties.

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, except for the effects of the matters described in the Basis for qualified conclusion paragraphs above, we are satisfied that in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2017 in accordance with the requirements of the Act and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Act. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

To be signed

Gareth Kelly
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

110 Queen Street
Glasgow
G1 3BX

To be dated



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