

The Audit Findings for Cumbria County Council

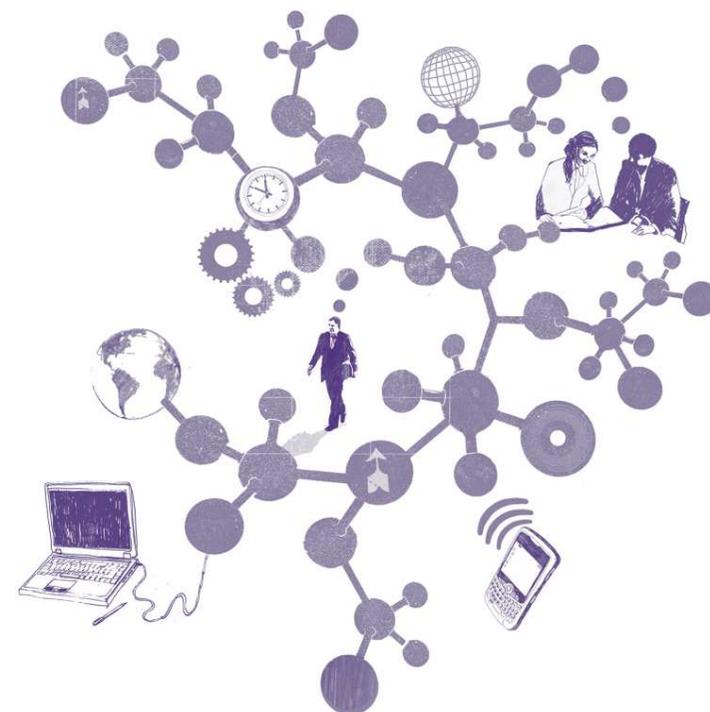
Year ended 31 March 2015

September 2015

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23 September 2015

Dear Tim

Audit Findings for Cumbria County Council for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Cumbria Council, the Audit and Assurance Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors 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. 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

Jackie Bellard

Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

We plan to give an unmodified opinion on the financial statements with no material errors identified. We are pleased to report the Council has again achieved a high quality standard of financial reporting for 2014/15 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, and as a result we are planning to issue an "except for" modified Value for Money conclusion qualification.

We have compared the Council's arrangements for securing value for money with the guidance on the specified criteria published by the Audit Commission in October 2014. With the exception of the matter reported on children looked after, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Cumbria County Council's (the Council) group and Council financial statements for the year ended 31 March 2015. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA UK&I).

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

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan communicated to you on 23 March 2015.

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

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

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the financial statements. We have identified no material adjustments, and of the two other adjustments identified, only one for £1.14m would affect the Council's net reported financial position in the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet.

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

- the Council has again achieved a high quality standard of financial reporting for 2014/15 in terms of compliance with the CIPFA Code of Practice;
- working papers were to a high standard, with an effective response time to audit queries;
- there are 2 non trivial errors identified relating to pension costs and property, plant and equipment that officers are not adjusting. These are shown in the unadjusted errors section on page 18; and
- no further errors were noted in the primary statements, and any amendments noted are in disclosure notes only.

There are also a small number of minor changes to the accounting policies and notes, to improve clarity and the presentation of the financial statements that are not separately reported.

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

Value for Money conclusion

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

We have considered the ongoing 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 submitted up to date evidence to our internal moderation panel and it supports an "except for " modified VfM conclusion qualification on the looked after children related issues.

With the exception of the matter reported on children looked after, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

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

Annual Governance Statement (AGS)

The Annual Governance Statement and referenced Local Code of Governance were fully compliant with the Good Governance Standard and 21 Criteria specified by CIPFA, with exception of one minor disclosure issue on scrutiny of key partnerships on health and social care and police and crime. We commend the Council on how it has refined its AGS disclosures and provided greater focus on the significant governance issues facing the Council.

Whole of Government Accounts (WGA)

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

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, with the exception of the arrangements for the authorisation of journals. We acknowledge that, the Council has compensatory controls in place to mitigate this risk.

Further details are provided within section two of this report.

The way forward

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

We have made four recommendations, which are set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Executive and Assistant Director – Finance.

Acknowledgment

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

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

We have identified no material primary statement adjustments, and of the two other adjustments identified, only one error results in the understatement of the Council's net reported financial position in both the CIES and Balance Sheet by £1.14m.

Other minor adjustments have been made to improve the presentation of the financial statement disclosures.

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Assurance Committee on 23 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 23 March 2015.

Audit opinion

Our proposed audit opinion is set out in Appendix B.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315). In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards and one additional risk noted.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper 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 • the culture and ethical frameworks at Cumbria County Council mean that all forms of fraud are seen as unacceptable. 	<p>Our wider audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management override of controls.</p>	<ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management • testing of journal entries • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues with the exception of direct journal authorisation. We set out this issue later in the report, on page 16, with a management response provided at Appendix A.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
3.	<p>Material contractual dispute</p> <p>There is the risk of a material misstatement in the accounts given the current uncertainty on arriving at a reasonable estimate on the final resolution of a material contractual dispute.</p>	<ul style="list-style-type: none"> • Review of the Council's compliance with IAS 37 Provisions, contingent liabilities and contingent assets • On-going discussion with the Council to determine correct accounting treatment in the accounts up to the date of opinion being issued. 	<p>Our audit work has considered the on-going position with regard to this contractual dispute (for which the Council is defendant) and the associated accounting implications for the Council's 2014/15 financial statements. We have reviewed in detail the latest position on the dispute up to the date of signing the opinion in late September 2015.</p> <p>We are satisfied the Council has fully considered the accounting implications under IAS37 and the wording included in the contingent liability note is sufficient and reflects the latest position.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Operating expenses</p>	<p>Creditors related to core activities understated or not recorded in the correct period.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Understanding the process and system and identification of controls • Walkthrough test of the operating expenses system • Substantive testing of accruals and payables • Review of accounting estimates, judgements and the accruals accounting process • Cut-off testing • Creditor control account reconciliation. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Employee remuneration</p>	<p>Employee remuneration and benefit obligations and expenses understated.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Understanding the process and system and identification of controls • Walkthrough test of the payroll systems • Reconciliation of the payroll system figures to the financial ledger • Substantive testing of year end payroll accruals • Substantive testing of salary payments. 	<p>Our audit work on salary payments included testing of exit packages. Two of the exit packages in the sample of ten cases tested were incorrectly calculated by the sums of £6,000 and £4,000.</p> <p>Although these are small value errors it is reported to you as this is a sensitive note. We acknowledge over 300 voluntary redundancies, amounting to £3.36m in termination payments and a total of £4.87m if you include strain payments, have been processed in 2014/15. In response to the issue, the Council had already identified one further case that had been incorrectly calculated, but the decision was made to honour the estimate communicated in the original letter.</p> <p>Following further quality checks by the Council, our understanding is that it is assured all other exit package calculations are accurate with no further errors identified. The Council is satisfied that no wider systematic error underpins these two isolated human errors.</p> <p>Our other 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	Desktop review performed including analytical review, understanding and testing of consolidation adjustments.	Our audit work has not identified any issues in respect of the consolidation of the Group accounts.

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 2014/15 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 & judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<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>	<p>Our review of revenue recognition policies has not highlighted any issues which we wish to bring to your attention.</p>	<p> Green</p>
Estimates and judgements	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • useful life of capital equipment • PFI transactions • pension fund valuations and settlements • Revaluations • Impairments • Provisions • accounting for schools • Accounting for NNDR appeals 	<p>The authority undertook a significant review of all schools during 2014/15 in order to comply with the changes required in the CIPFA Code of Practice. The results of this work is on page 13.</p> <p>The results of our work on revaluation estimates are shown on page 14.</p> <p>One error was identified in the work we undertook on the IAS19 pension costs estimates. The schools element of the information supplied to the Actuary was incorrect as the employer contributions and pensionable pay figures were both understated. The Actuary calculated the effect of the error, and the CIES is understated by £1.14m and the Balance Sheet and associated reserve understated by £1.14m. Further details are set out on page 18.</p> <p>Our review of other key estimates and judgements policies has not highlighted any further issues that we wish to bring to your attention.</p> <p>Our overall assessment of estimates and judgements remains 'green' as the issue identified is not with the assumptions underlying the calculation of the estimate or judgement made, but with the quality assurance process undertaken.</p>	<p> Green</p>

Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate and disclosures sufficient

 Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Judgements - local authority maintained schools premises</p>	<p>Schools Non-Current Assets are recognised on the Balance Sheet where the Council directly owns the assets, where the Council holds the balance of control of the assets or where the school or the school Governing Body own the assets or have had rights to use the assets transferred to them.</p>	<p>In response to the CIPFA Code of Practice changes in definitions of entities in 14/15, the Council reviewed the ownership of all schools and this resulted in a prior period adjustment. The working papers to support the calculations were to a high standard and judgements clearly evidenced. The disclosures in the accounts clearly show the accounting policy, judgements used and the reason for the prior period adjustment in both the single entity and the group accounts.</p> <p>We acknowledge that the number of valuations to carry out and process during 2014/15 was unprecedented due to the full revaluation programme of all Council owned schools.</p> <p>We identified one error relating to a valuation of a foundation school, which came onto the balance sheet as part of the prior period adjustment. The 2014/15 accounts included a significant downward revaluation for the school. The Valuer confirmed an error was made in the figures supplied to the Council and the opening 1 April 2013 balance was £7.725m overstated. The balance sheet as at 31 March 2015 is correct as the net book value of the asset is correct. The restatement error in relation to 2013/14 was corrected in determining the closing balance sheet value for 2014/15. Further details are set out on page 18.</p> <p>Our overall assessment of remains 'green' as the issue identified is not with the assumptions underlying the calculation of the estimate or judgement made, but with the quality assurance process undertaken.</p>	<p style="text-align: center;"> Green</p>
<p>Going concern</p>	<p>The Directors have a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Directors' assessment and are satisfied that the going concern basis is appropriate for the 2014/15 financial statements.</p>	<p style="text-align: center;"> Green</p>
<p>Other accounting policies</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention.</p>	<p style="text-align: center;"> Green</p>

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

Accounting policies, Estimates & Judgements– review of issues raised in prior year

	Issue and risk previously communicated	Update on actions taken to address the issue
1.	<p>Estimates and judgements - Property, Plant & Equipment</p> <p>The Council carries out a rolling programme of revaluations, with the date of the valuations varying between 2010/11 and 2014/15. This approach is similar to many other authorities.</p> <p>However, in our view this rolling programme did not meet the Code's requirement to value items within a class of property , plant and equipment simultaneously, as this Code requirement, which is based on IAS 16 Property, Plant and Equipment, only permits a class of assets to be revalued on a rolling basis provided that:</p> <ul style="list-style-type: none"> the revaluation of the class of assets is completed within a 'short period' the revaluations are kept up to date. <p>In our view, we would normally expect this 'short period' to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</p>	<p>Note 21.6 of the accounts sets out the authority's rolling programme of revaluations. The Council had a significant revaluation programme during 2014/15 including the normal rolling programme and a revaluation of all schools and elderly peoples homes.</p> <p>We are satisfied with the arrangements in place that you have satisfied yourselves that the carrying amount of Property, Plant and Equipment (based on these valuations) did not differ materially from the fair value at 31 March 2015.</p>

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> In particular, representations will be requested from management in respect of the latest position on the significant on-going contractual dispute. The reasons for not amending the financial statement for the items identified on page 18 are to be included in the Letter of Representation.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations for loans, investments and bank accounts. This permission was granted by management and the requests were sent, and all have been received.

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Employee Remuneration and Operating Expenses as set out on page 10 above.

The matter that we identified during the course of our audit is set out in the table below. This and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	 Amber	<p>Journal Entry Controls</p> <ul style="list-style-type: none"> The issue of journal authorisation was raised in previous reports, and discussions have been ongoing with the Council during 2014/15 on this issue. We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses, with the exception of the lack of journal authorisation controls, which may adversely impact on the Council's control environment or financial statements. We have not identified any issues to date from our journals testing with the exception of the journal authorisation issue as journals are not authorised. The Council is satisfied that other compensatory controls are in place, such as e5 journal restrictions to finance staff. From an audit perspective we still expect some form of journal authorisation in place even if it is operated at a batch level for more at risk categories of journals. 	Introduce direct authorisation controls for journals.

The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment

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

Adjusted misstatements

We did not identify any adjustments impacting upon the primary statements and the reported financial position that were amended by management.

Unadjusted misstatements

The table below provides details of two adjustments identified which we request be processed but 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
1 The information supplied to the Actuary in order to calculate the pension costs and liabilities figures for the Council were incorrect. The employer contributions were £1.734m, and pensionable pay £13.125m understated. The Actuary calculated the effect if the correct figures had been provided. The CIES is understated by £1.14m. The amendment would affect figures in cost of services, financing expenditure, other operating expenditure and other comprehensive expenditure. The pension liability and associated reserve in the Balance Sheet are both understated by £1.14m.	1,140	1,140	The Council has decided not to amend as the basis of the estimate is not materially misstated.
2 The opening balance as at 1/4/13 for a foundation school asset was provided incorrectly by the Valuer. This resulted in a £7.725m overstatement in the 1/4/13 restated balance sheet in the property, plant and equipment (PPE) buildings category and an overstatement in the Capital Adjustment Account. The correct asset value was provided for the 31/3/15 balance, so the net book value of the asset is correct in the 31/3/15 balance sheet. All be it that a significant downward revaluation is incorrectly recorded during the 2014/15 year instead of it being reflected in the opening 2013/14 PPE balance.	nil	7,725 (7,725) ----- nil	The Council has decided not to amend as the net book value reported in the 2014-15 accounts for this asset is correct.
Overall impact	£1,140	£1,140	

Misclassifications & disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	n/a	Note 7.21 – Group Accounts Provisions	The disclosure in this note showed an addition to provisions of £1.148m. This was the net figure, and the note was amended to disclose the addition as £4.122m and the release as (£2.974m). This amendment did not affect the total of this note.
2 Disclosure	n/a	Note 7.22 – Summary of Group Reserves	£3.284m was disclosed as a consolidation adjustment within the revaluation reserve. A new line was added for subsidiary share capital so that the £3.284m was reflected on a separate new line. This amendment did not affect the total of this note.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported below on looked after children, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. We have considered the impact of the "Inadequate" Children Services Ofsted regulator inspection, published in May 2015, and as a result we are planning to issue an "except for" modified Value for Money conclusion qualification.

We have submitted up to date evidence to our internal moderation panel and it supports an "except for" modified VFM conclusion qualification on this looked after children issue.

Value for Money

Value for money conclusion

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

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

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

These criteria are:

The Council has proper arrangements in place for securing financial resilience - the Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness - the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

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

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

Overall, our work highlighted that, on key financial resilience key indicators the Council remains largely in the mid-range against its benchmarked comparator authorities. The Council continues to face significant financial challenges and its Medium Term Financial Plan (MTFP) has aligned resources to Council priorities. The Council has identified £51m of savings and we acknowledge it is developing plans to bridge the remaining £33m budget gap up to 2017/18.

Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity.

We have also undertaken work in the following areas to address the risks identified on:

- children services
- VfM implications of the material contractual dispute
- financial resilience given the £84m savings required from 2015/16 to 2017/18 of which £33m is still to be identified.

We also followed up on other VfM related areas for development as highlighted in our 2013/14 review on secondary school Ofsted inspections, capital slippage and sickness absence management. Overall, our work highlighted a positive direction of travel on all of these 2013/14 key risk areas but we recognise more is continuing by the Council to secure greater value for money on the business critical areas.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015, with the exception of the arrangements for looked after children in Cumbria.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

Green	Adequate arrangements
Amber	Adequate arrangements, with areas for development
Red	Inadequate arrangements

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Key indicators of performance	<p>The Council continues to face significant financial challenges, and its MTFP has aligned resources to Council priorities. The budget gap in the MTFP was updated in February 2015, for the period 2015-2018. The Council is confident that it will bridge the £33m budget gap for 2016/17 and 2017/18, after securing a balanced budget for 2015/16. We acknowledge that, it is working up plans to deliver on the three year £84m of savings, with £51m identified and the above £33m gap still to be bridged up to 2017/18.</p> <p>Working capital ratio moved from 1.95 to 1.79 over the period March 2014 to March 2015. This shows the Council's liquidity is starting to come under increasing pressure in line with expectations under the current spending review period and beyond, so it will need to be carefully monitored.</p> <p>Overall, the Council's level of available reserves and contingencies provide adequate cover for known financial risks. The ratio of usable reserves to gross revenue expenditure has remained constant over the last three years at 0.135:1.</p> <p>The trend of greater long term borrowing to revenue and long term asset base ratio, moving from 0.384 to 0.394 to 0.418 between March 2013 and March 2015. In 2013/ 2014 this is as a direct result of the new fire stations PFI scheme coming on balance sheet, along side the development road and waste treatment plants. In 2014/15 the further move in the ratio is reflecting the impact of schools accounting and the use of internal borrowing to fund part of the capital programme.</p> <p>The Council's 2014/15 net General Fund revenue outturn indicates a balanced budget breakeven position has been achieved, with overspends in directorate pressures principally from Children Services, managed through offset by corporate and treasury management savings. This has been achieved during a year when around £26.8m savings have also been realised.</p> <p>The Council continues to demonstrate good financial performance. The Council's level of general balances remains around £15m, which is in line with the target set in the Council's medium term financial strategy.</p> <p>The profiling of the capital programme has improved and slippages are significantly lower than that experienced in 2013/14. There was overall slippage of £16.2m (£47.6m in 2013/14) against the revised budget of £99.7m (£111.9m in 2013/14) during 2014/15. We do acknowledge there are valid reasons for much of the combined accelerated spend and slippage, and more detail on this specific VfM risk area is provided later.</p>	Green	Green

Value for money

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
<p>Key indicators of performance - continued</p>	<p>The average of 12.92 (13.84 in 2013/14) sickness absence days per FTE for staff remains above the Council's 2015/16 target of 10.5 days and its 2017/18 target of 8 days.</p> <p>The overall Dedicated Schools Grant (DSG) balances have continued to decrease from 5.5% in 2012/13, 5% in 2013/14 and to 3.8% in 2014/15 of the total DSG allocation unspent. There are a similar number of schools in surplus and deficit between 2013/14 and 2014/15 but the overall school earmarked reserves position has reduced by 26% to £9.3m. We acknowledge that, the Council is continuing to work closely with schools and pupil referral units to ensure school balances are monitored.</p>	Green	Green
<p>Strategic financial planning</p>	<p>Ongoing financial resilience remains a key priority for the Council given the scale of the £26.8m savings delivered in 2014/15, which represents 93% of the total savings target of £28.9m. This represents a significant achievement in the context of the total revenue budget deductions of £127m since April 2011, maintaining a council tax freeze in 4 out of the last 5 financial years, and the £84m additional savings required over the next three years up to March 2018.</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. The Council has achieved significant savings of £127 million since April 2011, which is further evidence of strong strategic financial planning.</p> <p>Work is ongoing to bridge the outstanding two year budget gap of £33m up to 2017/18 and the possible further £22m up to March 2019, to provide greater certainty over the Council's financial health. 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. This will provide greater assurance over the Council's medium term financial health.</p>	Green	Green

Value for money

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
<p>Strategic financial planning - continued</p>	<p>The Council has sound financial planning and review processes in place. Each year it sets a three year Medium Term Financial Plan, with the current strategy covering the financial period 2015/16 – 2017/18. 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.</p> <p>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>Whilst there remains a considerable challenge ahead to address the budget gap, the Council has a good track record of delivering savings.</p>	<p>Green</p>	<p>Green</p>
<p>Financial governance</p>	<p>On financial governance, regular financial resilience reviews need to continue to ensure the levels of reserves and the Council's liquidity are maintained at appropriate levels , which is critical in the current financial climate.</p> <p>The Council has a well established approach to financial governance in terms of understanding, stakeholder engagement and monitoring that has delivered positive results in recent financial years. It is critical that the Council continues to ensure regular on-going open engagement with all the Council's stakeholders in the context of the significant saving plans projected over the coming years.</p> <p>We also acknowledge that the Finance Section has rolled out a number of financial related training courses including, budget manager workshops for all budget holders and finance for non-finance managers as part of the wider manager development programme.</p> <p>Overall assessment is that the Council's finance function is adequately resourced with experienced and highly capable staff.</p>	<p>Green</p>	<p>Green</p>

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Financial control	<p>The Council has started to embed the opportunities and upside of risks in the Council's wider risk management arrangements to allow Members and officers to see the totality of risk and support innovative and different service delivery. We acknowledge that the Council may not wish to go for wholesale commercialisation of public services but there is scope to further explore alternative delivery models with a view of generating more income, especially as delivery of cost savings become much harder to achieve.</p> <p>The Council's has a robust approach to financial management. The Council also demonstrates appropriate deployment of internal and external assurance mechanisms to give assurance over financial governance. There is clear evidence that the Council is proactively managing delivery of the savings required rather than just reporting on it. The Council is continually considering various saving options to achieve financial balance and it is still able to draw on existing reserves in the short to medium term.</p>	Green	Green

Value for money

Theme	Summary findings	RAG rating 2013-14	RAG rating 2014-15
Prioritising resources	<p>Senior management and Members work well together developing the Council's priorities and the MTFP. The Council Plan, Delivery Plan and MTFP are at the forefront of the Council's business, through its annual review and via the quarterly reporting of performance against the budget. Members are not afraid to offer challenge and scrutiny when required. The Council continues to challenge the way services are delivered. This includes investment through its capital programme, which is focussed on invest to save type initiatives, such as:</p> <ul style="list-style-type: none"> • better places for work which is rationalising the Council's estate, • extra care housing and accommodation with care and support schemes provision, • Combined blue light scheme and day crew system; and • Local Enterprise Partnership growth deals incorporating a number of infrastructure and economic regeneration related schemes. <p>The Council proactively challenges the way services are delivered to identify where efficiencies can be achieved. It has clear information on costs to help inform decision making. Budget monitoring and service and performance reports are reported to and challenged by the Scrutiny and the Executive Committees.</p>	Green	Green
Improving efficiency & productivity	<p>The Council has a proven track record of delivering savings having achieved approximately £127m over the last four years up to March 2015. In addition the Council has already identified all of its 2015/16 and the majority of its 2016/17 budgetary savings allowing it to forecast close to a balanced budget for the forthcoming year and beyond.</p> <p>Through our meetings with corporate directors there is greater focus on improving efficiency and productivity. For example, initiatives in 2014/15 include:</p> <ul style="list-style-type: none"> • protecting and modernising front line services; • prevention before cure; and • thinking local first. <p>The Council's net spend per head of population in 2013/14 is £1,327 (a 1% increase on £1,293 from 2012/13), which is above the average for the nearest neighbour group of £1,162. Due to the rural and sparse nature of Cumbria with a relatively low population the net spend per head for Cumbria will always be above average. From 2013/14 VFM profiles the only significant outliers are on:</p> <ul style="list-style-type: none"> • spend on highways and transport per head is £100 against nearest neighbour average of £86, which in part is down to the costs associated with the CNDR and high take up on concessionary fares • net spend on environmental services per head is £74 (£66 in 2012/13) against nearest neighbour average of £56 (£49 in 2012/13), which is due to waste management recycling costs being almost twice as costly as the average but an amended recycling scheme in operation during 2013/14 has achieved savings of £0.8m. A second treatment plant is now on stream resulting in another change in contract values, but it has also increased performance deductions, which are contributing to reduced costs. 	Green	Green

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

Residual risk identified	Summary findings	RAG rating
<p>VfM implications from adverse child protection and secondary school Ofsted inspections</p> <p>Risks identified as a result of the May 2015 Children services "Inadequate" assessed Ofsted Inspection, following May 2012 and May 2013 inadequate inspections, with VfM related concerns raised on quality of effective services and the high cost of service provision.</p>	<p>The Council had a re-inspection in March 2015 on both child protection and children looked after. In summary, Ofsted's overall judgement is that children's services are inadequate. Child protection had improved and was assessed as requires improvement. Some elements of looked after on 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. 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>We have reviewed the Children's Improvement Board (CIB) progress and monitoring reports, improvement plan, and other Children Services supporting evidence. Variability remains and although the direction of travel is overall positive some KPIs remain well behind target. Of 26 indicators reported in June 2015, 7 are red and 6 amber and all indicators are improving except for 2 which are sustained and 1 has declined. Child Protection (CP) visits and reviews are just below target and Children looked After (CLA) visits are above target but CLA reviews at 61.6% is well below the target of 85%. We acknowledge this is driven partly by increase in volume but continuing variability of practice is limiting overall improvement.</p> <p>In financial terms the most significant pressure within Children Services is the cost of placements of Looked After Children. The total cost of supporting Looked After Children in 2014/15 was £26.321m, which was in excess of the budget by £5.090m. This is as a result of having more children looked after than projected and in comparison with statistical neighbours.</p> <p>We are proposing to issue an "except for" VfM conclusion on the above matter but the context will relate to looked after children as opposed to child protection which was the focus of our qualification in 2013/14. This judgement has been moderated through a Grant Thornton National Consistency Panel. Management continues to take action to provide additional financial resources and leadership capacity to improve the arrangements for looked after children in Cumbria but there is not yet sustained improvement across the whole service, as recognised by the inspectors, CIB and management. It is critical the Council addresses the quality and consistency of frontline children services social work practice across Cumbria through effective implementation of its workforce strategy. We acknowledge that, Children Services is working hard to ensure experienced team managers and social workers are in place.</p> <p>The red RAG rating does represent the position during 2014/15 and we acknowledge the Council's concerted efforts to improve the arrangements for looked after children in Cumbria.</p>	<p>Red</p>
<p>Contract monitoring arrangements</p> <p>Risk of the Council not adequately managing VfM in the context of the current contractual dispute.</p>	<p>The Council is the defendant in a legal dispute concerning the provision of highway services from a commercial provider. The contract ended in 2012. Lead Members are kept fully briefed by Management on the progress of the litigation. Resources have been agreed by Council through to trial. The Council is dedicating significant senior management time and employing specialist professional advice to rebut the disputed contract claim and to provide a robust counter claim to that lodged by the previous contractor. The Council is facing a challenging transformation agenda which requires leadership and direction from senior management and the contractual dispute represents an additional challenge to the deployment of resources.</p>	<p>Amber</p>

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

Residual risk identified	Summary findings	RAG rating
<p>Follow up on 2013/14 VfM related development areas</p>		
<p>VfM implications from adverse secondary school Ofsted inspections</p> <p>The Council received a letter from the Regional Director Inspector of Ofsted in February 2014, raising serious concerns about the quality of secondary education in the Cumbria county area.</p>	<p>Original concerns related to 17 schools inspected (including 5 academies), which resulted in 5 including the pupil referral unit being placed in special measures, of which 1 was an academy. In summary none of the schools inspected had improved and 8 had declined. The inspections were triggered by key outcomes for children at the age of 16 have been significantly below the national average over 2011/2012 and 2012/13.</p> <p>As reported in May 2015, the percentage of primary schools judged Good or Outstanding remains above the national average (82%) at 90.4%, up again from the last report (89.6%). The percentage of secondary schools remains below the national average (72.8%) at 59.5%, though up marginally from the last report (56.7%). Importantly the number of schools judged to Require Improvement has reduced by three overall. The number of schools in an Ofsted category of concern (Special Measures or Serious Weakness) has now reduced by four since September 2014. All schools and academies in this context, continue to be judged by HMI to be making appropriate progress toward removal of this judgment.</p> <p>We acknowledge that the Council is working through the Cumbria Alliance of Systems Leaders to improve educational attainment and related performance outcomes, with the aim of ultimately leading to better educational and vocational attainment including GCSE and A Level results. 2013/14 academic year results show a positive direction of travel for Cumbria including:</p> <ul style="list-style-type: none"> • overall percentage of Cumbria's children reaching or exceeding the Good level of Development has increased significantly by 8.3%, which is above the national rise and places Cumbria just below the national average; • for 'first entry' on the 5 or more GCSE grades at A*-C, including English and mathematics measure Cumbria is in line with the national average at 55.8%; and • at 'A' Level there has been no significant change to overall attainment compared with 2013 and most key measures are broadly in line with the national average. <p>There is continual robust management and monitoring of all secondary school performance to drive up educational attainment and to assist any schools moving out of special measures or serious weaknesses judgements.</p>	<p>Green</p>
<p>Capital programme slippages</p> <p>VfM implications of slippage on capital programme especially on invest to save schemes.</p>	<p>The capital programme in 2014/15 experienced a much smaller overall slippage of £16.2m on a revised programme of £98.3m compared to 2013/14 experienced slippage of £47.6m on a total planned scheme of £111.9m. There is still scope to improve the assessment and reporting of the impact slippages have on service standards and delivery, especially on Council priority areas.</p> <p>We acknowledge that the Council is continuing to re-profile some of its capital programme as intelligence around delivery timeframes are better understood.</p>	<p>Green</p>

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

Residual risk identified	Summary findings	RAG rating
<p>Sickness absence management</p> <p>Potential costs and impact on quality of service delivery as a result of high levels of sickness absence, in particular within community care.</p>	<p>The Council's reported absence level during 2014/15 of 12.92 working days per annum lost per FTE (13.81 days in 2013/14) is above the Council's 2015/16 target levels of 10.5 days and well above the 2017/18 target of 8 days.</p> <p>The Council has started to reverse the recent upward trend and the May 2015 figures support this at 11.8 working days lost per FTE.</p> <p>The Council does carry out monthly sickness related performance monitoring and is targeting specific high sickness areas such as in-house adult care provision (Cumbria Care), which was 16 days (22 days in 2013/14) per FTE in 2014/15. Current performance for Cumbria Care is 15.7 days against a 2015/16 target of 14.09 days.</p> <p>We understand that in Cumbria Care and Adult Social Care senior management are continuing to target sickness rate reduction through monthly monitoring.</p> <p>We acknowledge that the Council is continuing to address sickness absence through on line sickness recording, revised policies and procedures, positive attendance procedures and line manager workshops.</p> <p>Given the significant organisational change that is currently taking place, it is important for senior management to continue to take a robust approach to sickness absence management .</p>	<p>Amber</p>

Section 4: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

There is no variation in actual fee against the planned fee for the 2014/15 audit.

Fees, non-audit services and independence

We confirm below our final fees charged for the audit and for the provision of other audit related services. There were no fees for provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Council audit	152,820	152,820
Total audit fees	152,820	152,820

There is no variation in the actual fee against the planned fee for the 2014/15 audit.

Fees for other services

Service	Fees £
Audit related services	
Teachers' Pension Return	4,200 (*)
Non audit related services	Nil

* The fee for the certification of the Teachers' Pension Return is indicative as the work is on-going as the certification deadline is 30 November 2015.

Independence and ethics

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

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

Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non-audit services and independence

05. Communication of audit matters

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

Communication of audit matters to those charged with governance

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

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

Respective responsibilities

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

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

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code. From 2015/16 with the end of the Audit Commission the responsibility for audit appointments transferred to Public Sector Audit Appointments Limited.

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

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

Appendices

Appendix A: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Strengthen the quality assurance processes in checking the information supplied to the Actuary.	Medium	The existing quality assurance process will be reviewed and strengthened as appropriate to ensure the information supplied to the Actuary is accurate.	Date 1st November 2015 Pam Duke, Senior Manager Accountancy and Financial Planning
2	Strengthen the quality assurance processes in checking significant changes in asset values from the Valuer.	Medium	The existing quality assurance process for reviewing significant changes in asset values from the Valuer does not need to be updated. The error was not identified due to the volume of valuations undertaken in 2014/15 (where all schools were revalued in one financial year) combined with the significant changes to the school assets as a result of the changed accounting for schools requirements and the subsequent Prior Period Adjustment. The valuation error was in the restated 1 April 13 Balance Sheet and was correct as at 31 March 2015. No further action will be taken.	Date N/A Pam Duke, Senior Manage Accountancy and Financial Planning
3	Introduce direct authorisation controls for journals.	Medium	In 2012 when the E5 financial system was upgraded the entry of journals into E5 was restricted to finance staff and this control continues. Supplementary evidence from budget holders is maintained where appropriate. The Council has assurance that this key control is operating effectively and is of the view that the additional workload to introduce additional authorisation is not justified by the residual risk . However in light of the audit view that additional authorisation should be introduced the Council will review, on a risk basis, if any particular types / values of journals should be subject to additional authorisation. Any changes will be implemented following that review.	Date 1 January 2016 Pam Duke, Senior Manager Accountancy and Financial Planning

Priority

High, Medium or Low

Appendix B: Audit opinion

We plan to issue an unqualified opinion on the accounts and an "except for" VfM conclusion in relation to looked after children

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

We have audited the financial statements of Cumbria County Council for the year ended 31 March 2015 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, Section 5 Statement of Accounting Policies and the related notes 1 to 43 and group notes in Section 7, 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 2014/15.

This report is made solely to the members of Cumbria County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the 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 and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director - Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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's and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director - Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements 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:

- give a true and fair view of the financial position of Cumbria County Council as at 31 March 2015 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2015 and of its expenditure and income for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

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

Matters on which we report by exception

We are required to report to you if:

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

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission in October 2014.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2014, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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

Basis 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.

The publication of a joint inspection report by Ofsted and the Care Quality Commission in May 2012 and a further inspection report by Ofsted in May 2013 concluded that the overall arrangements for Protection of Children in the Cumbria County Council area were judged to be 'inadequate'.

A further inspection report by Ofsted in May 2015 concluded that child protection services had improved, but require further improvement, and arrangements for looked after children and achieving permanence and related leadership, management and governance are 'inadequate'. In May 2015 the overall arrangements for Children's Services were judged to be 'inadequate'.

These judgements are evidence of weaknesses in the arrangements of prioritising resources and improving efficiency and productivity.

Qualified Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2014, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that, in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

Certificate

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

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

Grant Thornton UK LLP
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23 September 2015



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