

The Annual Audit Letter for Cumbria County Council

Year ended 31 March 2015

October 2015

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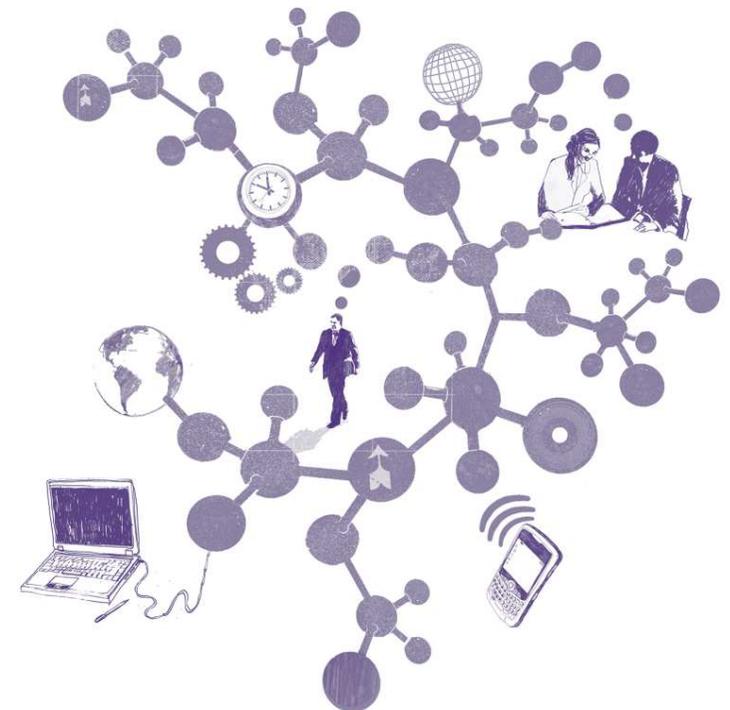
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Key messages

Our Annual Audit Letter summarises the key findings arising from the work that we have carried out at Cumbria County Council ('the Council') for the year ended 31 March 2015.

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 23 March 2015 and was conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission and Public Sector Audit Appointments Limited.

Financial statements audit (including audit opinion)

We reported our findings arising from the audit of the financial statements of Cumbria County Council including Cumbria Local Government Pension Scheme in our Audit Findings Report on 23 September 2015 to the Audit and Assurance Committee. The key messages reported were:

- the Council had 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 were 2 non trivial errors identified in the primary statements of Cumbria County Council relating to pension costs and property, plant and equipment that officers were not adjusting on the grounds of materiality; and
- there were no errors identified in the Cumbria Local Government Pension Scheme primary statements, and any amendments related to disclosure notes.

Appendix A outlines the key issues and recommendations from the financial statements review including management's response.

We issued an unqualified opinion on the Council's 2014/15 financial statements on 23 September 2015, meeting the deadline set by the Department for Communities and Local Government. Our opinion confirms that the financial statements give a true and fair view of the Council's financial position and of the income and expenditure recorded by the Council.

Key messages continued

<p>Value for Money (VfM) conclusion – overall assessment</p>	<p>We issued an 'except for' VfM conclusion for 2014/15 on 23 September 2015.</p> <p>We are required to give a VfM conclusion based on the following two criteria specified by the Audit Commission; the Council has</p> <ul style="list-style-type: none"> • proper arrangements in place for securing financial resilience; and • proper arrangements for challenging how it secures economy, efficiency and effectiveness <p>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 issued an 'except for' modified Value for Money conclusion qualification.</p> <p>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.</p>
<p>Value for Money (VfM) conclusion – securing financial resilience</p>	<p>We have considered the Council's arrangements to secure financial resilience against the following themes:</p> <ul style="list-style-type: none"> • Key financial performance indicators; • Financial governance; • Financial planning; and • Financial control. <p>Key financial performance indicators</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.</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>

Key messages continued

Value for Money (VfM)

conclusion – securing financial resilience continued

Financial Governance

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.

Financial Planning

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 £113 million since April 2011, which is further evidence of strong strategic financial planning.

Work is on-going 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.

Financial Control

The Council's has a robust approach to financial control. 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.

Key messages continued

Value for Money (VfM) conclusion – challenging economy, efficiency and effectiveness

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

- Prioritising resources; and
- Improving efficiency and productivity.

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

- Children Services; and
- VfM implications of the material contractual dispute.

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. We also recognise that the Council continues to do more in these business critical areas to secure greater value for money.

Prioritising resources

Senior management and Members work well together developing the Council's priorities and the Medium Term Financial Plan (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.

Improving efficiency and productivity

The Council has a proven track record of delivering savings having achieved approximately £113m 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.

Children Services

The Council had a re-inspection in March 2015 on both child protection and children looked after. Ofsted's overall judgement is that children's services remain inadequate, with looked after children and achieving permanence and related leadership, management and governance were scored as inadequate. However, child protection had improved and was assessed as requires improvement. Their report is also positive about the stronger leadership of the service now in place, the significant progress on collaborative agency working and the good quality of direct work with children. Management recognise that it needs to continue to take action to address the quality and consistency of frontline children services social work practice across Cumbria.

Key messages continued

<p>Value for Money (VfM) conclusion – challenging economy, efficiency and effectiveness continued</p>	<p>Material contractual dispute 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>Whole of Government Accounts</p>	<p>We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts. We reported that the Council's pack was consistent with the audited financial statements.</p>
<p>Certification of housing benefit grant claim</p>	<p>No certification work is required under the Audit Commission certification regime. The Teachers' Pension return audit will however be completed under a separate certification arrangement agreed with the Department for Education and the Council. It is expected that the audit fee for the work will be £4,200.</p>
<p>Audit fee</p>	<p>Our fee for 2014/15 was £152,820, excluding VAT which was in line with our planned fee for the year. Further detail is included within appendix B.</p>

Appendix A: Key issues and recommendations

This appendix summarised the significant recommendations identified during the 2014/15 audit.

No.	Issue and recommendation	Priority	Management response/ responsible office/ due date
1.	<p>Estimated information supplied to the Actuary in order to calculate IAS19 pension cost entries was incorrect, and an error of £1.14m was identified.</p> <p>Recommendation: Strengthen the quality assurance processes in checking the information supplied to the Actuary.</p>	Medium	<p>The existing quality assurance process will be reviewed and strengthened as appropriate to ensure the information supplied to the Actuary is accurate.</p> <p>Responsible officer: Senior Manager Accountancy and Financial Planning Due date: 1 November 2015</p>
2.	<p>Journals are not directly authorised by another officer prior to input into the general ledger.</p> <p>Recommendation: Introduce direct authorisation controls for journals.</p>	Medium	<p>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.</p> <p>Responsible officer: Senior Manager Accountancy and Financial Planning Due date: 1 January 2016</p>

Appendix B: Reports issued and fees

We confirm below the fees charged for the audit and non-audit services.

Fees for audit services

	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

Reports issued

Report	Date issued
Audit Plan	23 March 2015
Audit Findings Report	23 September 2015
Annual Audit Letter	23 October 2015



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