

The Audit Findings Report for Cumbria County Council

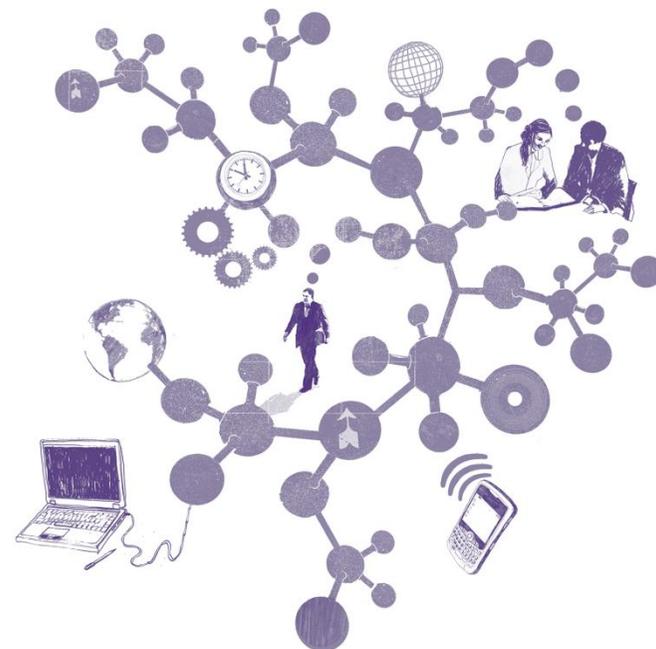
Year ended 31 March 2016

September 2016

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21 September 2016

Dear Members of the Audit and Assurance Committee

Audit Findings for Cumbria County Council for the year ending 31 March 2016

This Audit Findings report highlights the key findings arising from the audit for the benefit of those charged with governance (in the case of Cumbria County Council, the Audit and Assurance Committee), 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 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 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

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. 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 the Council has again achieved a high quality standard of financial reporting for 2015/16 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 a qualified 'except for' Value for Money conclusion.

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 value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

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 2016. 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 consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

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 relevant period.

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 21 March 2016.

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

- groups response from the Group external auditor;
- discussion with the Council's legal counsel regarding the contractual dispute scheduled for 20 September 2016;
- 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 and accompanying working papers at the commencement of our work.

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.

One adjusted misstatement was identified in the classification of the group balance sheet and £1 million adjusted from short term investments to cash and cash equivalents. This has no impact upon the net financial position. One unadjusted misstatement was identified for £0.960 million. This is an extrapolated figure based upon an initial error of £0.002 million. Officers are not amending for the extrapolated adjustment, and this decision does not impact upon the opinion.

Any other adjustments identified are to disclosure notes only. 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 2015/16 in terms of compliance with the CIPFA Code of Practice; and
- working papers were to a high standard, with an effective response time to audit queries.

Further details are set out in section two of this report at pages 22 to 24.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

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 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; and
- if the information in the Narrative Report 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.

The Narrative Statement is a new requirement for 2015/16, and amendments were identified to increase the level of non-financial information disclosure reported, to add disclosure on the group structure, and to provide further narrative on value for money.

Although some disclosure is included on non-financial information, a recommendation is made at appendix A on page 40 to review the level of disclosure in future years.

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 identified one area for reporting in relation to the internal control framework.

During 2015/16 it was identified from the external audit process in July 2016, 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. This error in the published strategy was not identified until the audit query was raised.

Consequently, the breach has resulted in no financial loss or impacted upon the financial statements for 2015/16 and work carried out by the Council's treasury advisors has confirmed that no additional risks occurred during the periods of the breach, as investments were with appropriate credit rated entities. 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.

The Council will report this issue to the Audit and Assurance Committee on 21 September 2016 and this issue has been reported to the Corporate Governance Group on 16 August 2016 and officers have stated that no further reporting action is required.

Further details are provided at page 20 of this report and a recommendation is made in the action plan at Appendix A on page 40.

Follow up of 2014/15 issues

One area reported in the 2014/15 Audit Findings Report was the lack of additional journal authorisation controls. It is noted that processes have been introduced during 2015/16 to address this area. Every month for the preceding month, journals are reviewed and authorised retrospectively. This was introduced from November 2015, with an exercise carried out on April to October 2015 journals to authorise those during November 2015.

Further details are provided at page 21 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 submitted evidence to our internal moderation panel and it supports a qualified 'except for' VFM conclusion qualification on the looked after children 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 2015. With the exception of the matter reported on looked after children, 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 2016.

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 not identified any issues that have required us to apply our statutory powers and duties under the Act.

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.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the Assistant Director – Finance and the finance team.

Acknowledgement

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.

Grant Thornton UK LLP
September 2016

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 no adjusted misstatements that impact upon the net reported position in the primary financial statements.

The Narrative Statement is a new requirement for 2015/16 and adjustments were identified to increase the level of non-financial information reported, to add disclosure on the group structure, and to provide more explicit reference to value for money.

Breaches in the treasury management strategy during 2015/16 were identified as a result of an audit query. There were no losses to the Council from the breaches. A recommendation is made in the action plan to improve internal controls in this area.

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 £15.824 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 £14.809 million (still being 1.75% of gross revenue expenditure, but expenditure levels have decreased in 2015/16, 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 £0.791 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 £0.740 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
Related party transactions.	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements.	Due to public interest in these disclosures and the statutory requirement for them to be made.
Disclosure of auditors' remuneration in notes to the statements.	Due to public interest in these disclosures and the statutory requirement for them to be made.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (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 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>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"> • review of entity controls; • testing of journal entries; • review of accounting estimates, judgements and decisions made by management, and • review of 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 has introduced retrospective additional manual journal authorisation processes and checks during 2015/16, so internal control in this area has been strengthened.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

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 the next page.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Material contractual dispute</p> <p>The Council is currently involved in a significant contractual dispute.</p> <p>There is the potential risk of a material misstatement in the accounts given the current uncertainty on arriving at a reasonable estimate on the final resolution.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> on-going discussion with the Council on their correct accounting treatment in the financial statements, up to the date of opinion being issued; review of the Council's compliance with IAS37 provisions, contingent liabilities and contingent assets; and discussions with the Council's legal counsel is outstanding and is scheduled for later in September 2016. 	<p>Our audit work has considered the on-going position with regard to this contractual dispute (for which the Council is the defendant) and the associated accounting implications for the Council's 2015/16 financial statements. We have reviewed in detail the latest position on the dispute up to the date of signing the opinion in late September 2016.</p> <p>As at 14 September 2016 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> <p>Discussions with the Council's legal counsel is planned for 20 September 2016 to update the position as close to the opinion date, and to inform our post balance sheet events review.</p>
4.	<p>Valuation of property, plant and equipment</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>For 2015/16 there are new accounting standards on fair value (IFRS 13). There are also adaptations to IAS 16 on property, plant and equipment that apply in 2015/16, including additional disclosure requirements.</p> <p>Cumbria experienced severe flooding in several areas during December 2015 impacting on a number of Council services, buildings and infrastructure. We will gain an understanding of management's processes to account for the impact on asset valuations due to the flooding.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> review of management's processes and assumptions for the calculation of the estimate, new accounting standards and impact of flooding; review of the competence, expertise and objectivity of any management experts used and review of the instructions issued to valuation experts and the scope of their work; discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions and review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding; testing of revaluations made during the year to ensure they were input correctly into the Council's asset register; and evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. 	<p>Our audit work has not identified any issues in respect of the valuation of PPE.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
5.	<p>Valuation of pension fund net liability</p> <p>The Council's pension fund assets and liabilities as reflected in its balance sheet represent significant estimates in the financial statements. In 2015/16, 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>The work we have performed on this risk includes:</p> <ul style="list-style-type: none"> • documentation of the key controls that were put in place by management to ensure that the pension fund liability was not materially misstated; • walkthrough of the key controls to assess whether they were implemented as expected and mitigate the risk of material misstatement in the financial statements; • review of the competence, expertise and objectivity of the actuary who carried out the Council's pension fund valuation; • gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made; and • review of the consistency of the pension fund assets and liabilities and disclosures in notes to the financial statements with the actuarial report from the Council's actuary. 	<p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</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
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle for both the Trent and Capita payroll systems; • undertaken walkthrough of the key controls to assess whether those controls were in line with our documented understanding; • substantive testing of year-end payroll accruals; • testing of salary payments; and • trend analysis of payroll costs over the period and year-on-year analysis. 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • documented our understanding of processes and key controls over the transaction cycle; • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding; • review of accounting estimates, judgements 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 • testing of expenditure and accruals to goods receipt and subsequent invoice and payment. 	Our audit work has not identified any significant issues in relation to the risk identified.

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. We sought assurance from KPMG, the external auditors of Cumbria County Holdings Limited to rely upon the audited financial statements of each component within Cumbria County Holdings Limited.</p> <p>We are awaiting a response back from the external auditor of Cumbria County Holdings Limited including a copy of the audited financial statements for 2015/16. Correspondence has confirmed that this is expected during September.</p>	<p>Our audit work has identified one misclassification within the group balance sheet and an amendment was made to adjust £1 million from short term investments to cash and cash equivalents. Any affected disclosure notes were also amended.</p> <p>No further issues were identified in respect of the consolidation of the Group accounts.</p>

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 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>	 Green
Judgements and estimates	<p>Key estimates and judgements 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 judgements and estimates has not highlighted any issues which we wish to bring to your attention.</p> <p>Work on IAS19 and asset valuation judgements and estimates are reported on pages 12 and 13.</p>	 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

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Assistant Director - Finance, the s151 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 continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 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 standard letter of representation has been requested from the Council including specific representations in respect of the Group. In particular, representations have been requested from management in respect of the significant on-going contractual dispute. The reasons for not amending the financial statements for the item identified on page 23 is be 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 but one have been received and alternative audit procedures were carried out to confirm this balance.
6.	Disclosures	Our review found no material omissions in the financial statements. One adjustment was identified and amended by management to enhance the existing disclosures in note 29 Financial Instruments. In the credit risk section of the note, information was added to disclose the credit ratings of the institutions the Council invests with.

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 Report 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 Narrative Statement is a new requirement for 2015/16. Amendments were identified to increase the level of non-financial information disclosure reported, to add disclosure on the group structure, and to provide further narrative on value for money. Officers have amended for issues raised.</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> <ul style="list-style-type: none"> • The work is completed and there are no issues arising, but the submission for the Whole Government Accounts will be later in September 2016 after the completion of the closing procedures for the financial statements audit.

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, Operating Expenses, IAS19 and Property Plant and Equipment as set out on pages 12 to 14.

The matters that we identified during the course of our audit are set out in the table below. These 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>During 2015/16 it was identified from the external audit process in July 2016, 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. This error in the published strategy was not identified until the audit query was raised.</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.</p> <p>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 has resulted in no financial loss or impacted upon the financial statements for 2015/16 and work carried out by the Council's treasury advisors has 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"> Introduce additional controls to assess the approved treasury management strategy to investment decisions on a regular basis.

Assessment

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

The matters reported here are 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.

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>Journal Entry Controls</p> <ul style="list-style-type: none"> The issue of journal authorisation was raised in the 2014/15 Audit Findings Report, and also in prior years. We reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy. We identified the lack of journal authorisation controls as an issue which may adversely impact on the Council's control environment or financial statements. Our work did not identify any other issues from our journals testing and the Council were satisfied that other compensatory controls were in place, such as e5 journal restrictions to finance staff. Our Audit Findings Report included a recommendation, as from an audit perspective we would still expect some form of journal authorisation in line with ISA 240 and 315, even if it is operated at a batch level for more at risk categories of journals. 	<ul style="list-style-type: none"> Additional journal authorisation processes have been introduced during 2015/16 for manual journals. Every month for the preceding month, journals are reviewed and authorised retrospectively. This was introduced from November 2015, with an exercise carried out on April to October 2015 journals to authorise those during November 2015. Walkthrough testing confirms the control is operating as planned, and our testing of journals did not highlight any issues. Satisfactory assurance has been gained that the authorisation issue has been addressed by officers.

Assessment
 ✓ Action completed
 X Not yet addressed

Adjusted misstatements

A number of 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

All 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 group balance sheet incorrectly classified £1 million of cash within the short term investments balance. There is no impact upon the net reported position as a result of this adjustment.	0	-1,000 +1,000	0
Overall impact	£ 0	£0	£ 0

Unadjusted misstatements

The table below provides details of 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 One unadjusted misstatement was identified for £961,000 in capital additions. This is an extrapolated figure on a statistical basis from an initial error of £2,000.</p> <p>The decision to not adjust for this issue does not impact upon the audit opinion.</p>		<p>-961 +961</p>	<p>Management has responded that the figure is an extrapolation that individually would not be reported. Due to the audit approach the extrapolation process increases the theoretical error. No adjustment is required due to the trivial error in relation to the £103 million overall capital programme spend in 2015/16.</p>
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 Misclassification	n/a	Note 14 Exit packages	<p>The number of non-schools exit packages were amended in the mix of the note only, the total number of exit packages was correct. The split of the amendment is as follows:</p> <p>£0 to £20,000 – from 199 to 196 £40,001 to £60,000 – from 21 to 24 £60,001 to £80,000 – from 13 to 14 £80,001 to £100,000 – from 7 to 6.</p> <p>This is only reported to you as this is a sensitive balance and any changes would be reported irrespective of value.</p>
2 Misclassification	38	Note 15 Audit fees	<p>The note was amended from £153,000 to £115,000 to reflect the correct audit fee for the 2015/16 financial year. A £38,000 credit note was issued by the external auditor to the Council due to an initial overcharge which was identified as part of the audit.</p> <p>This is only reported to you as this is a sensitive balance and any changes would be reported irrespective of value.</p>
3 Disclosure	n/a	Note 29 Financial Instruments – Credit risk	Information was added to disclose the credit ratings of the institutions the Council invests with.
4 Misclassification	1,212	Note 38.3 Reconciliation of Present Value of Scheme Liabilities	The note was amended to include £1,212,000 for teachers pensions interest costs on the correct line, as it had been classified as current service costs within the disclosure note.

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, and as a result we are planning to issue a qualified 'except for' Value for Money conclusion.

With the exception of the matter reported on looked after children, 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 2016.

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 2015. 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 May 2016 and identified the significant risks, which we communicated to you in our external audit update report to the Audit and Assurance Committee on 25 June 2016.

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;
- Significant capital projects and service transformation projects including the medium term financial plan (MTFP); and
- a significant contractual dispute.

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;
- the impact of the Cumbria floods in December 2015 upon the MTFP;
- update reports and letters from Department for Education and Ofsted on children's services;
- health and social care integration participation; and
- contractual dispute legal updates.

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 28 to 31.

Overall conclusion

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

- except for the matter we identified in respect of looked after children, 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.

Key findings

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>Ofsted inspection of children's services</p> <p>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 judgement 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>Last year, 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. Recruitment of 20 posts during the year through the social worker academy project 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 review, with increased use of audit tools and processes.</p> <p>The Ofsted letter of 21 July 2016 summarises the findings of 10 monitoring visits to Cumbria between July 2015 and June 2016 and indicates a positive direction of travel. Although there are summary findings for each of the four phases of the Ofsted monitoring visits, the letter notes that in summary "inspectors are 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>We are proposing to issue an "except for" VfM conclusion on the above matter. Without a formal re-inspection by Ofsted during 2015/16 the 'inadequate' rating is still in place. This judgement 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 The Council is seeking to deliver wide ranging changes and greater integration to ensure the financial sustainability of adult health and social care services. Working with partners from different organisations and service areas with potentially conflicting priorities, the project is 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.</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 covers east and west Cumbria. 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 to both agendas and Cumbria County Council are fully engaged, with director participation on both schemes. For the Success Regime this involves 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 recently 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 2015/16 for health and social care integration we concluded that the risk was sufficiently mitigated and that the Council has proper 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>Significant capital projects and service transformation projects</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. This is significant both in scale and financial terms.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks.</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 2016 for the 3 year period 2016/17 to 2018/19 with savings required over the 3 years of £75 million. The Council is confident that it will bridge the £30m budget gap for 2017/18 to 2018/19, after securing a balanced budget for 2016/17 with the £45 million of savings identified for 2016/17. We acknowledge that the Council is working on plans to deliver on the £30 million required for 2017/18 and 2018/19, with a significant proportion at £29 million still to be identified. The MTFP assumes the level of the general fund balance will be no less than £13 million during the period.</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 four year period 2011/12 to 2015/16 the Council has identified £153 million of savings and has a strong history of achieving savings. Reporting financial outcomes including the current position on savings and budgets is 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>The floods in December 2015 had a significant impact upon the infrastructure within Cumbria. Government funding approved of £108 million for capital recovery works has been profiled in the capital programme with £50 million in 2016/17 and £58 million in 2017/18. Funding approved to date is £30 million less than the amount requested and this is the subject of on-going discussions with central government. Net revenue costs for the response to the floods in 2015/16 amount to £1.5 million, and was met through existing reserves.</p> <p>Based on the review of the arrangements in place during 2015/16 for the compilation of the MTFP including identified savings, and managing the impact of the floods, we concluded that the risk was sufficiently mitigated and that the Council has proper 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 of documents.

Significant risk	Work to address	Findings and conclusions
<p>Significant 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.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council to manage this risk.</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, and planning, organising and developing the workforce effectively to deliver strategic priorities.</p>	<p>The Council is the defendant in a significant contractual dispute by a former contractor. Members are kept fully briefed by management on the progress of the litigation through update reports as part of the quarterly budget monitoring report and regular member briefings. Resources have been agreed by the Council including trial costs, as the litigation progressed to trial. The legal judgement and outcome is currently awaited following the initial court proceedings concluded in May 2016.</p> <p>The Council has dedicated significant senior management time and employed specialist professional advice to rebut the disputed contract claim and to provide a 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 a continuing challenge to the deployment of key Council resources.</p> <p>A discussion is scheduled with the Council's legal counsel regarding the contractual dispute as part of our confirmation processes and update of post balance sheet events, and this is scheduled for 20 September 2016</p> <p>As at 14 September 2016, based on the review of the arrangements in place during 2015/16 for the response to the significant contractual dispute we concluded that the risk was sufficiently mitigated and that the Council has proper arrangements in this area.</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.

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 authority since the 31 March 2016 in terms of direction of travel, it is only arrangements in place during the 2015/16 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.
There are no issues to report.

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	<ul style="list-style-type: none"> We have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none"> We have not made any written recommendations 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.

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.

Fees

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

There is no variation in the actual fee against the planned fee for the 2015/16 audit.

Grant certification

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

Fees for other services

Service	Fees £
Audit related services:	
• Grant certification – Teachers' Pension Return	4,900

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. In this context, we disclose the following to you:

- One member of the audit team John Cangle is a personal friend of Alison Clark, the former Group Finance Manager – Pensions, Treasury and Insurance. This is not deemed to be a significant independence risk. It is mitigated through the auditor not auditing balances and transactions within the investment, loans and cash cycles. Instead, our work in these areas will be carried out by other audit staff.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 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

International Standards on Auditing 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.

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 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		✓
Significant matters in relation to the Group audit	✓	✓

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Review the scope of the non-financial performance information in the Narrative Statement to disclose the key measures of performance linked to Council's strategic objectives.	Low	Non-financial performance information is presented to members and the public through quarterly reporting to Cabinet and Council. A link to the performance reporting has been included in the 2015/16 Narrative Statement and in future years where possible a summarised position will be introduced into the narrative statement.	Assistant Director – Finance June 2017
2	Introduce additional controls to assess the approved treasury management strategy to investment decisions on a regular basis.	Medium	The 2016/17 Treasury Management Strategy reflects the continuing limit of £20 million to individual investments. However, in light of the audit findings and to provide further assurances additional high level controls have been introduced. The matter was reported in full to the Corporate Governance Group at its meeting on 16 August 2016 and the conclusion reached was that no further reporting action was required.	Assistant Director – Finance September 2016

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

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 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Group and Authority Movement in Reserves Statements, the Group and Authority Comprehensive Income and Expenditure Statements, the Group and Authority Balance Sheets, the Group and Authority Cash Flow Statements, Section 5 Statement of Accounting Policies and the related notes 1 to 42 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 2015/16.

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 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 the 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 2015/16, 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 and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director - Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Statement and 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 2016 and of the Authority's and Group's expenditure and income for the year then ended; and have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 is consistent with the Group 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: a Framework' published by CIPFA/SOLACE in June 2007; or we issue a report in the public interest under section 24 of the Act; or we make a written recommendation to the Authority under section 24 of the Act; or we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements to secure value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and 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 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 to secure value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, 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 these criteria as those necessary for us to consider under the Code in satisfying ourselves whether the Authority put in place proper arrangements to secure value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code. 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 to secure value for money through economic, efficient and effective use of its resources.

Basis for qualified conclusion

In considering the Authority's arrangements for securing efficiency, economy and effectiveness we identified the following matter. In May 2012, Ofsted and the Care Quality Commission issued a joint report on the inspection of the Authority's services for child protection. In May 2013, Ofsted issued a further report on child protection. The overall judgement in both reports was 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 had improved, but requires further improvement. The arrangements for looked after children was 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, and 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.

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 2015, except for the effect of the matter described in the Basis for qualified conclusion paragraph, we are satisfied that in all significant respects *the Authority* 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 2016.

Certificate

We certify that we have completed the audit of the accounts of the Authority in accordance with the requirements of the Act and the Code.

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

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To be dated 2016



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