

Audit Findings

Year ending 31 March 2018

Cumbria County Council
27 July 2018



Contents



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audit of Cumbria County Council ('the Council') and the preparation of the Group and Council's financial statements for the year ended 31 March 2018, for those charged with governance.

Financial Statements	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none">the Group and Council's financial statements give a true and fair view of the Group and Council's financial position and of the Group and Council's expenditure and income for the year, andhave been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Statement, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June and July 2018. We have not identified any adjustments to the financial statements that have resulted in a change to the draft reported Statement of Comprehensive Income and Expenditure position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Assurance Committee meeting to be held on 27 July 2018. These outstanding items include:</p> <ul style="list-style-type: none">- audit of the Whole of Government Accounts return- receipt of management representation letter- updating our post balance sheet events review, to the date of signing the opinion. <p>We have concluded that the other information published with the financial statements, which includes the post audit Statement of Accounts, Annual Governance Statement and Narrative Statement, are consistent with our knowledge of your organisation and the financial statements.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion; the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Cumbria County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources, except for having embedded contract management arrangements. We therefore anticipate issuing an 'except for' value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 14 to 18.</p> <p>Following the OFSTED re-inspection reporting in January 2018 that, the Council has now achieved a period of continuous development in all children services, we are able to lift the previous except for qualification on looked after children.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none">report to you if we have applied any of the additional powers and duties ascribed to us under the Act; andcertify the closure of the audit	<p>We have not exercised any of our additional statutory powers or duties for 2017/18.</p> <p>We do not expect to be able to certify the conclusion of the audit yet as we are still to conclude the objections received on the 2016/17 audit. We are in the final stages of concluding this objection which will then allow us to certify closure of the 2016/17 and 2017/18 audits.</p> <p>We have completed our review of the Objector's concerns and we are satisfied that we are able to issue our anticipated opinion on the financial statements, and our value for money conclusion for 2017/18. Further details are noted on page 19 and we will update those charged with governance as appropriate.</p>

Acknowledgements

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.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit and Assurance Committee.

As your auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an analytical was required for the group components

- An evaluation of the Council's internal controls environment including its IT systems and controls
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

The Accounts have been produced to a very high standard and the finance team have produced good working papers and have also been responsive to our audit queries. A good achievement, especially in the context of a complex set of statements, and the shorter closedown period and tighter statutory deadlines.

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Assurance Committee meeting to be held on 27 July 2018. These outstanding items include:

- audit of the Whole of Government Accounts return
- receipt of management's representation letter
- updating our post balance sheet events review, to the date of signing the opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for the Group and Council. We have set a separate materiality for disclosure of officers remuneration.

Group and Council Amount (£)	
Materiality for the financial statements	£14,907,000 (1.75% of gross revenue expenditure)
Performance materiality	£11,180,000 (75% of overall materiality)
Trivial matters	£745,000 (5% of overall materiality)
Materiality for specific transactions, balances or disclosures	Officers remuneration - £19,997 (1.75% of officer remuneration expenditure)

Significant audit risks

Risks identified in our Audit Plan	Commentary
<p>1 Improper revenue recognition</p> <p>Under ISA 240 (UK) 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 the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including Cumbria County Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Cumbria County Council.</p>
<p>2 Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none">• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness• evaluated the rationale for any changes in accounting policies or significant unusual transactions. <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant audit risks (continued)

Risks identified in our Audit Plan	Commentary
<p>3 Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings on a rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • given consideration to the competence, expertise and objectivity of any management experts used • discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding • tested revaluations made during the year to ensure they were input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p>Our audit work has not identified any issues in respect of Property, Plant and Equipment valuation.</p>
<p>4 Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation was carried out • undertaken procedures to confirm the reasonableness of the actuarial assumptions made • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
<p>5 Employee remuneration</p> <p>Payroll expenditure represents a significant percentage of the Council's operating expenses.</p> <p>As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated.</p> <p>We therefore identified completeness of payroll expenses as a risk requiring particular audit attention</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls obtained the year-end payroll reconciliations and ensured the amount in the accounts was reconciled to ledger and through to payroll reports. investigated any significant adjusting items in reconciliations agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and reviewed any estimates for reasonableness. <p>Our audit work has not identified any issues in respect of the completeness of employee remuneration.</p>
<p>6 Operating expenses</p> <p>Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.</p> <p>We identified completeness of non- pay expenses as a risk requiring particular audit attention:</p>	<p>We have undertaken the following work in relation to this risk</p> <ul style="list-style-type: none"> evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness gained an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls obtained a listing of non-pay payments made in April and ensured that a sample of these transactions were charged to the appropriate year. <p>One issue was identified through our testing of creditors, with creditors being incorrectly recorded by the EPROC system. The Council had reviewed EPROC creditors in advance of compiling the financial statements and reversed over £7m of system generated creditor balances, to ensure the balance was materially correct. In addition, the total creditor value relating to EPROC was £5.836m in 2017/18 and therefore this could not be a material issue. We acknowledge the extensive work to continually reconcile and review the outstanding transactions on the EPROC system. Manual goods receipting input errors are causing the issue. Therefore without this manual intervention there is the risk of misstatements in the future. See page 21 where a recommendation on this control issue has been raised.</p>

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
<p>Management's assessment process</p> <p>The Council has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists.</p>	<ul style="list-style-type: none">• The Council's use of the going the concern basis of accounting is appropriate.• The Council's assessment of going concern was communicated to us in the Audit Committee Chair's letter, dated 16 April 2018.
<p>Work performed</p> <p>We discussed the financial standing of the Council with the Head of Financial Services and reviewed management's assessment of going concern and the assumptions and supporting information.</p>	<ul style="list-style-type: none">• No material uncertainty identified.• Explicit disclosure of going concern as the basis of the preparation of the accounts is made in the Narrative Report.
<p>Concluding comments</p> <p>The Council's use of going concern basis of accounting is appropriate.</p>	<ul style="list-style-type: none">• Our opinion is unmodified in respect of the going concern conclusion.

Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.




	Significant matter	Commentary
1	Significant events or transactions that occurred during the year	No issues to report.
2	Business conditions affecting the group or Council, and business plans and strategies that may affect the risks of material misstatement	No issues to report.
3	Concerns about management's consultations with other accountants on accounting or auditing matters	No issues to report.
4	Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	We were re-appointed as auditors of Cumbria County Council for five years from 2018/19. We issued our fee letters for 2018/19 on the 19 April 2018 and presented them to the Audit and Assurance Committee on 29 June 2018.
5	Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No issues to report.
6	Other matters that are significant to the oversight of the financial reporting process.	No issues to report.

Significant findings arising from the group audit

Component	Component auditor	Significant?	Level of response required under ISA 600	Work completed	Findings and Group audit impact
Cumbria County Holdings Limited	KPMG	No	Analytical	<ul style="list-style-type: none">We performed a desktop review including analytical procedures and gained an understanding of the consolidation process.This included obtaining the audited financial statements for the components of Cumbria County Holdings.	<ul style="list-style-type: none">Our audit work did not identify any issues in respect of the analytical procedures performed on the group consolidation.

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

Accounting policies, estimates and judgements

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser. Revenue from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due when there is reasonable assurance of compliance with the conditions attached to the payments and the grants or contributions will be received. Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. 	<p>Our review of the Council's accounting policies has not highlighted any issues which we wish to bring to your attention.</p> <p>Policies are in accordance with the requirements of the CIPFA Code of Practice.</p>	 GREEN
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements not already included within other sections of this report are:: <ul style="list-style-type: none"> Useful life of PPE PFI transactions Provisions Accounting for schools 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 page 6.</p>	 GREEN
Other critical policies	<ul style="list-style-type: none"> We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The accounting policies are appropriate and consistent with previous years. 	<p>Our review of accounting policies for the Council has not highlighted any issues which we wish to bring to your attention.</p>	 GREEN

Assessment

● Marginal accounting policy which could potentially be open to challenge by 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.

1	Issue	Commentary
	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Assurance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	We are not aware of any related parties or 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.
5	Confirmation requests from third parties	We obtained permission from management to send confirmation requests to the Council's bankers and those with whom it placed investments or has given it loans. This permission was granted and requests were sent with positive confirmations received back.
6	Disclosures	Our review found no material omissions in the financial statements.
7	Significant difficulties	We did not identify any issues with the accounts closedown, production of draft accounts or in relation to the quality of the working papers.

Other responsibilities under the Code

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

Issue	Commentary
1 Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Statement), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Post audit amendments there are no inconsistencies between these statements nor with our knowledge of the Council. We plan to issue an unqualified opinion in this respect.</p> <p>The Council has updated its Narrative Statement following our audit for inclusion of:</p> <ul style="list-style-type: none"> • a VfM section • core values, culture and ethics that underpin its actions and decision making processes. <p>In future Narrative Statements, the Council should consider the presentation of non-financial information to allow the reader to assess the Council's overall performance.</p>
2 Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers 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 other information of which we are aware from our audit • If we have applied any of our statutory powers or duties. <p>We suggested a number of amendments to the AGS to ensure the statement met disclosure requirements, which have been implemented by management, and these include:</p> <ul style="list-style-type: none"> • providing a link to the local code in section 1 under the Council's responsibilities • updating the partnership section to be more explicit on the key integrated care partnership • reflecting on external audit findings and recommendations • updating on external inspections with the Cumbrian Health and Social Care system being the subject of the Care Quality Commission and Zurich Contract Risk Management Review, and concluding none have led to the identification of significant control weaknesses • adding a conclusion section to make it clear the governance framework is fit for purpose and that the Council will maintain an effective governance framework.
3 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. As the Council exceeds the specified group reporting threshold of £500 million we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>Note that work is not yet completed but we plan to complete the work prior to the final sign off on the 2017/18 accounts.</p>
4 Certification of the closure of the audit	<p>We do not expect to be able to certify the conclusion of the audit yet as we are still to formally conclude the objections received during the 2016/17 audit. We are in the final stages of concluding this objection which will then allow us to certify the closure of the 2016/17 and 2017/18 audits.</p>

Value for Money

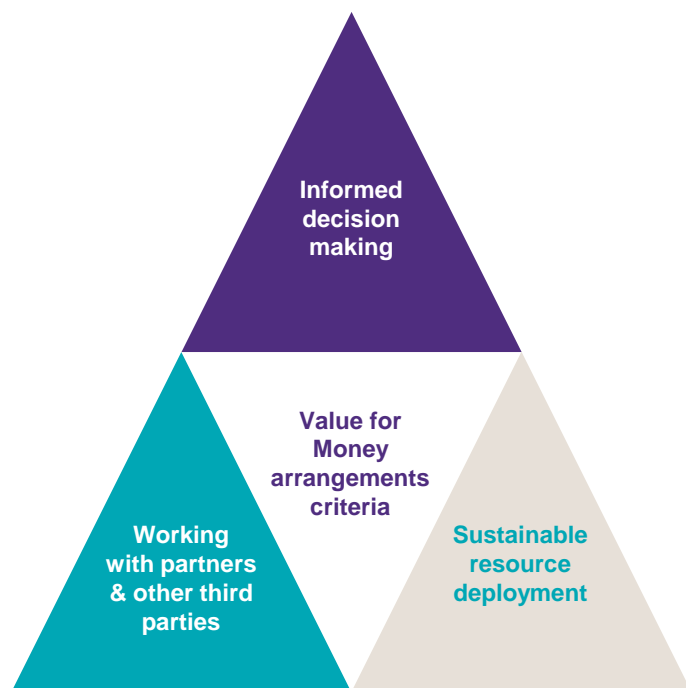
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January and February 2018 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in Auditor Guidance Note (AGN) 03. We communicated these risks to you in our Audit Plan dated December 2017.

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.

Our work

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 risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- actions taken by the Council to improve Children's Services and the result of the re-inspection by Ofsted in November 2017
- the robustness of the Council's MTFP and the extent to which it has identified savings to mitigate financial pressures
- weaknesses in contract management identified by the Council's Amey Lessons Learned review.

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 on pages 15 to 18.

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 embedding its contract management arrangements, 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.

Value for Money

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

The Council is working in a proactive manner to address weaknesses in its contract management arrangements. There is clear evidence to support related improvement throughout 2017/2018. All arrangements related actions have now been implemented and evidence has been provided in relation to the contractual management improvements made.

Work is ongoing to further embed these improvements across the Council. On this basis we conclude that the required improvements were not fully embedded within the Council throughout the whole of 2017/18. We therefore propose to issue an 'except for' opinion on the Council's contract monitoring arrangements, until there is appropriate evidence of sustainable improvement.

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.

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	Findings	Conclusion
1	Ofsted inspection of children's services		Auditor view
	<ul style="list-style-type: none"> The Council has recently been re-inspected by Ofsted in November 2017. The Council has been working to improve its looked after children services in response to the last Ofsted report in May 2015. 	<ul style="list-style-type: none"> The Council was re-inspected by Ofsted in November 2017 focussing on the areas of children in need of help and protection, children looked after and care leavers. The report by Ofsted was issued in January 2018 and the overall assessment was "requires improvement" with both the sub-criteria of adoption performance and leadership, management and governance assessed as "good". The Ofsted report concluded that, the local authority has now achieved a period of continuous development in all services. The report included 10 recommendations. An Action Plan has been prepared to address these issues for submission to Ofsted by the deadline of 9th May 2018. A letter from the Parliamentary Under-Secretary of State in January 2018 confirms that the Statutory Direction issued to Cumbria County Council in November 2015 has now been lifted. The letter highlights the fact that leadership, management and governance has improved to "good" and notes that elected members have made corporate parenting a strength in Cumbria, and the Director of Children's Services, has demonstrated a continuing focus on improvement across the service. We found that there were robust arrangements in place to monitor performance throughout 2017/18. Performance indicators, including the HERD indicators which track performance against the Children's Improvement Plan, were reported monthly to the Departmental Management Team with RAG ratings to indicate areas requiring further development. These reports included the results from case audits which focus on six measures - evidence of the voice of the child, the proportion of audits where referrals were promptly and appropriately allocated, assessments that met minimum standards, evidence of children's plans meeting minimum standards, evidence of case management meeting required standards and appropriate management oversight. Progress against the Improvement Plan was monitored by the Children's Improvement Board (ChIB), which provides a multi-agency focus on delivering improvement in Children's Services. We found evidence of scrutiny and challenge of actions taken on quality and performance issues. The ChIB is to be formally stood down following the lifting of the Statutory Direction. A joint Chairs meeting (including the Chairs of the Local Safeguarding Children's Board, Corporate Parenting Board, Children's Trust Board, Children and Young People's Scrutiny, Cumbria Adults Safeguarding Board) has been set up to continue the strategic conversation and maintain an overview of performance and improvement to ensure there is continuous progress towards achieving an assessment of "good". This meets quarterly. Quarterly inspections from Ofsted continued to take place up to the date of the re-inspection and the results for 2017/18 were detailed in Ofsted letters dated 13 June 2017 and 22 September 2017 for visits 13 and 14. Visit 13, which was reported in the letter of 13 June 2017, focused on progress that has been made in services for children looked after and care leavers and concluded that "the local authority is making expected progress in some areas of practice". Visit 14, which was reported in the letter of 22 September 2017 focused on the west of the county and concluded that "the local authority is making steady progress in improving services for children and young people in the west of the county". 	<ul style="list-style-type: none"> We are satisfied that with the Council's positive direction of travel culminating in the Ofsted re-inspection citing a period of continuous development in all services. This demonstrates that adequate performance management arrangements to support informed decision making were in place throughout 2017/18. We therefore propose to issue an unqualified VFM conclusion in this area, lifting a previous children's services related except for qualified VFM conclusion that was in place for a number of years.
			Management response
			<ul style="list-style-type: none"> The Action Plan was submitted to Ofsted on the 9th May and its delivery is being monitored on a quarterly basis through a newly established Joint Chairs meeting. It is also a priority project that is being monitored through the People Programme Board within the County Council to ensure focus is maintained on continuous improvement to achieve an assessment of 'good'.

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	Findings	Conclusion
2	<p>Medium term financial plan (MTFP) including service transformation</p> <p>The Council has faced significant reductions in funding in recent years, and the Council has dealt with this in a proactive way and has delivered £198 million in planned savings between 2011/12 and 2016/17. In 2017/18 savings of £16 million are required, and the Council is on track to deliver the majority of the required savings.</p>	<ul style="list-style-type: none"> The Council continues to face significant financial challenges. The MTFP was updated in February 2018 and this shows that savings of £38.8 million have been identified for 2018/19. This total includes around £22 million which relates to technical adjustments, notably a change to the Council's MRP policy, which accounts for £16.4 million of this reported position in 2018/19. Technical adjustments such as this are non-recurring and do not address underlying pressures in the longer term. The savings still to be found to balance the budget over the four year period of the MTFP up to 2021/22 is £52m in total. The Council has a good record in achieving savings and when setting its previous seven annual budgets the Council has agreed £214 million of savings between 1 April 2011 and 31 March 2018. At 31 March 2018 General Fund (GF) balances were £10.472 million plus earmarked reserves of £65.457 million giving total usable reserves of £75.929 million. The Council's revenue reserves at 31 March 2018 represent 9% of the net spend for 2017/18. GF balances are expected to exceed the target level of £10m at 31 March 2019. The Council has a GF balance at 31 March 2018 of £10.472 million and useable earmarked reserves of £65.457 million. Over the last 3 years the Council's GF and earmarked reserves have decreased by 6%, and are 11.7% of net expenditure. The school earmarked reserves have decreased in year, from £3.284 million to £1.685 million. Overall, schools have negative balances of £1.868 million due to the ring fenced dedicated schools grant overspend of £3.553 million. This largely relates to the high needs service allocation in 2016/17 and a three year recovery plan is in place to neutralise the impact of this overspend on earmarked reserves. This is evident in 2017/18 where an underspend of £0.522m on this service has been reported. The Council has strong reporting and monitoring arrangements in place. Its medium term financial planning, budgeting and identification of saving plans are agreed at a corporate level, by senior officers and Members. Additional pressures and progress against efficiency savings requirements are reported throughout the year and actions agreed to close the budget gap as required. The MTFP maintains the General Fund balance at £10 million throughout the period of the Plan. 	<p>Auditor view</p> <ul style="list-style-type: none"> Based on our review of the arrangements in place during 2017/18 for the compilation of the MTFP including identified savings, we concluded that the risk was sufficiently mitigated and that the Council has adequate arrangements in this area. The Council's useable reserves have decreased by 6% over the last 3 years, with the Amey settlement having a significant impact in 2016/17. The Council reports on its reserves position on a quarterly basis and is satisfied it has adequate reserves in the short term to meet risks the Council faces but it will have to continue to closely monitor the reserve position in the context of its medium to longer term financial sustainability. The Council has delivered significant cost savings over the past seven budgets and now needs to more focused on cost and demand management and areas of potential income generation to support sustainable delivery in the longer term.

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	Findings	Conclusion
2	<p>Medium term financial plan (MTFP) including service transformation</p> <p>The Council has faced significant reductions in funding in recent years, and the Council has dealt with this in a proactive way and has delivered £198 million in planned savings between 2011/12 and 2016/17. In 2017/18 savings of £16 million are required, and the Council is on track to deliver the majority of the required savings.</p>	<ul style="list-style-type: none"> The Council is faced with the continuing challenge of finding further savings which is becoming 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. There are severe budgetary pressures in Children's Services and Adult Services and these are likely to increase as a result of social-demographic changes. The Council has delivered significant cost savings over the past seven budgets and now needs to focus on areas of potential income generation to support sustainable delivery in the longer term. The financial 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 realistic 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>Management response</p> <ul style="list-style-type: none"> The reserves position is monitored and reported formally to Cabinet on a quarterly basis. In preparing the Annual Budget and MTFP, a full review and forecast of total reserves is undertaken. The Council Plan (2018-2022) sets out a clear commitment to develop future budgets which consider the opportunity to maximise income and focus on demand management and cost management of services which as a whole, along with other new ways of working aim to deliver financial sustainability within the challenging context for local government and the uncertainties about future funding.

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	Findings	Conclusion
<p>3</p> <p>Contract management and monitoring</p> <p>In September 2017 the 'lessons learned' review reviewed the events surrounding the procurement, operation and termination of the Amey contract. The report included an Action Plan, which management are addressing during 2017/18.</p>		<ul style="list-style-type: none"> Following a legal contractual dispute settled in November 2016 the Authority completed a Lessons Learned review including agreed management actions in September 2017, to address a number of identified weaknesses in relation to contractual management. The Authority acknowledges that it needed to improve the robustness of its overarching contract management arrangements with appropriate capacity, capability, performance monitoring and risk and escalation management of major contracts and potential related disputes and litigation. The Council commissioned from Zurich a Contract Risk Management Review which was published on 27 April 2018. The review found that, "the Council has and is making significant changes to how it manages contracts, in response to risk and a desire to implement best practice in some areas." The review did highlight some areas for further improvement in terms of up to date significant contract risk registers and assessing the embeddedness of the updated annual governance statement process and oversight of how DMTs assure themselves that risks are being managed in significant contracts. The Council has provided evidence that appropriate actions have been taken in response to the report's recommendations. Actions taken include: <ul style="list-style-type: none"> identification of significant contracts across all services production of Effective Contract Management Guidance note which has been issued to Corporate Directors Implementation of a single electronic system across Council to capture significant contract information Introduction of regular quarterly reporting through Directorate Management Teams and the Corporate Management Team of significant contracts to enable escalation of issues and concerns Review of the Council's Whistleblowing Policy and development of new Speak up arrangements to support the development of openness and transparency across the Council. The quarterly review of significant contracts undertaken by the Council, through DMTs and CMTs, indicates that there are currently no significant contract management issues or concerns. The Council has put significant work into implementing the actions in the lessons learned report and substantial amounts of evidence have been provided for audit to document the thorough review the Council has given each action. We acknowledge that, improvement work had begun before the formal agreement of the Action Plan in September 2017, and from then there has been a period of focused activity to fully implement the action plan. Our high level review on the two long-term contracts the Council has with private finance providers indicates that there are robust arrangements in place to monitor contract performance and engage with partners with clear escalation policies in place. 	<p>Auditor view</p> <ul style="list-style-type: none"> The Council is working in a proactive manner to address weaknesses in its contract management arrangements. There is clear evidence to support related improvement throughout 2017/2018. All arrangements related actions have now been implemented and evidence has been provided in relation to the contractual management improvements made. Work is ongoing to further embed these improvements across the Council. On this basis we conclude that the required improvements were not fully embedded within the Council throughout the whole of 2017/18. We therefore propose to issue an 'except for' opinion on the Council's contract monitoring arrangements, until there is appropriate evidence of sustainable improvement. The local audit team's conclusion to issue an except for type value for money conclusion on this matter as outlined above has been through, and is supported by, a national Grant Thornton internal Public Sector Assurance Moderation Panel. <p>Management response</p> <ul style="list-style-type: none"> Significant progress has been made to implement the improvements, and further work continues to embed the new arrangements in 18/19. The internal task group is continuing to meet to oversee this and the implementation of the ZM recommendations.

Other statutory powers and duties

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

Issue	Commentary
<div>1</div> <div>Public Interest report</div> <div>Written recommendations</div> <div>Application to the court for unlawful item</div> <div>Advisory notice</div> <div>Application for judicial review</div>	<p>We have not identified any matters in 2017/18 which require to be considered under our other statutory powers or duties. However, we have provided below an update on the 2016/17 objection.</p>
<div>2</div> <div>Objection 2016/17</div>	<p>We are in the final stages of concluding this objection. We received an objection from a local elector requesting that we issue a public interest report in relation to a highways improvement plan in Kendal. Our work on the objection has involved several reiterations of investigating concerns raised with the Council, investigating the issues through documentation reviews and key officer interviews as well informing the Objector of the Council's responses and sharing of material documentation.</p> <p>A draft decision and explanation letter has been drafted and will shortly go to Public Sector Audit Appointments Limited for their clearance.</p>

Independence and ethics

Independence and ethics

We confirm that there is one significant matter that could have impacted on our independence, objectivity and integrity as your auditors that we are required to draw to your attention. Given its sensitive nature and timing we will share with you as those charged with governance our full disclosure on this matter will require the Audit and Assurance Committee the item under part 2. The Engagement Lead in consultation with the Engagement Quality Control Reviewer and our Central Ethics Team have taken the appropriate and immediate actions to put safeguards in place to manage any real or perceived risk to our independence, objectivity and integrity. This will be explained to the Committee in the meeting.

We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies. Details of fees charged are detailed in Appendix D.

Audit and Non-audit services



For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

Service	£	Threats	Safeguards
Audit related			
Certification of Teachers' Pension return	4,900	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,900 in comparison to the total fee for the audit of £114,615 and also relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Harbour Authority Accounts specified procedures	1,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,000 in comparison to the total fee for the audit of £114,615 and also relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Cost Assurance	1,427	Self-Interest (because this is a contingent fee)	The level of this fee taken on its own is not considered a significant threat to independence as the fee for this work in 2017/18 is £1,427 in comparison to the total fee for the audit of £114,615 and also relative to Grant Thornton UK LLP's turnover overall. Although this is a contingent fee piece of work, the amount charged in full for the cost assurance work in 2016/17 and 2017/18 totals £1,927. These factors mitigate the perceived self-interest threat to an acceptable level.




The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group and Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the relevant officers.

Action plan

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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.

Assessment	Issue and risk	Recommendations
1 	Statement of accounts <ul style="list-style-type: none"> Through sample testing of the creditors balance we identified errors, for the second year running, in EPROC system generated creditors. Further work was performed by the Council before the accounts were issued to ensure this balance was materially correct, and further testing was undertaken by the audit team to prove that this was not a material issue. We acknowledge the extensive work to continually reconcile and review the outstanding transactions on the EPROC system. Manual goods receipting input errors are causing the issue. This issue has the potential to cause errors in the future, due to creditors being incorrectly raised. 	<ul style="list-style-type: none"> Review the processes and controls in the EPROC system to ensure liabilities recorded at year-end are true creditor balances. Management response <ul style="list-style-type: none"> Continued training on the EPROC system data input requirements for all users to minimise errors in respect of the system automated creditors at the year end. This will be complemented by the manual review by budget holders as part of their monthly monitoring and the Finance Team as part of established year end processes.
2 	Value for Money <ul style="list-style-type: none"> The Council's useable reserves have decreased by 6% over the last 3 years, with the Amey settlement having a significant impact in 2016/17. The Council reports on its reserves position on a quarterly basis and is satisfied it has adequate reserves in the short term to meet risks the Council faces but it will have to continue to closely monitor the reserve position in the context of its medium to longer term financial sustainability. The Council has delivered significant cost savings over the past seven budgets and now needs to be more focused on cost and demand management and areas of potential income generation to support sustainable delivery in the longer term. 	<ul style="list-style-type: none"> Continue to closely monitor the use of usable reserves position in the context of the Council's medium to longer term financial sustainability. Continue to develop and plan how areas of potential income generation and further cost and demand management will be used to support sustainable delivery in the longer term. Management response <ul style="list-style-type: none"> The reserves position is monitored and reported formally to Cabinet on a quarterly basis. In preparing the Annual Budget and MTFP, a full review and forecast of total reserves is undertaken. The Council Plan (2018-2022) sets out a clear commitment to develop future budgets which consider the opportunity to maximise income and focus on demand management and cost management of services which as a whole, along with other new ways of working aim to deliver financial sustainability within the challenging context for local government and the uncertainties about future funding.

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. 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.

Assessment	Issue and risk	Recommendations
3	<div><div></div><div>Value for Money<ul style="list-style-type: none">Contractual management arrangements have improved and work is ongoing to further embed these improvements across the Council. The Council is also implementing the recommendations made in the Zurich Municipal Contract Risk Management Review.</div></div>	<div><ul style="list-style-type: none">Seek assurances and evidence that the new contractual management arrangements continue to be embedded across the Council and implement the external review contract risk management review recommendations.Management response<ul style="list-style-type: none">Significant progress has been made to implement the improvements, and further work continues to embed the new arrangements in 18/19. The internal task group is continuing to meet to oversee this and the implementation of the ZM recommendations.</div>

Controls
● High – Significant effect on control system
● Medium – Effect on control system
● Low – Best practice

Follow up of prior year recommendations

We identified the following issue in the audit of Cumbria County Council's 2016/17 financial statements, which resulted in a recommendation being reported in our 2016/17 Audit Findings report. We are pleased to report that management has implemented this recommendation.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1 ✓	<p>The outcome of the 'Lesson Learned' review from the Amey contract was presented to the Audit and Assurance Committee on 12 September 2017. Management responded at this Audit and Assurance Committee meeting with a detailed plan of action that was to be monitored by the Corporate Management Team, led by the Chief Executive. It was agreed that the Audit and Assurance Committee would also receive regular updates and assurances on progress against the agreed action plan.</p> <p>Our recommendation was that the Council should 'Implement the contract management 'lessons learned' report actions, and regularly update the Audit and Assurance Committee with progress'.</p>	<p>As outlined in detail on page 18, the Council has fully implemented the action plan and is now in a period of embedding its new contractual management arrangements.</p> <p>The Council has kept the Audit and Assurance Committee fully abreast of progress on the implementation of the action plan at regular intervals since its formal adoption in September 2017. For example, in June 2018 senior managers presented to the Committee on how the new contractual management arrangements were being applied in 3 significant contract areas.</p>

Assessment
✓ Action completed
X Not yet addressed

Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

The audit of the 2017/18 statement of Accounts did not identify any errors which affect the Council’s financial performance for the year.

Misclassification and disclosure changes

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

Adjustment Type	Value (£'000)	Account Balance	Impact on the Financial Statements
1. Disclosure	4,568	Balance Sheet (Prior year 2015-16)	The Council made a Prior Period Adjustment to consolidate a bank overdraft into the cash and cash equivalents balance, which affected the closing balance at 31 March 2016. Therefore a third Balance Sheet is required to fully disclose this adjustment, which had no overall impact on the Balance Sheet, reducing both assets and liabilities. The Financial Statements were amended to include a third Balance Sheet.

A number of other minor amendments to the Statement of Accounts have been made to improve their presentation.

Audit Adjustments

Impact of unadjusted misstatements

There were no unadjusted misstatements identified during the 2017/18 audit. There was one unadjusted misstatement from 2016/17 which has not been amended in the 2017/18 Financial Statements.

Detail	Comprehensive Income and Expenditure Statement (£'000)	Balance Sheet (£'000)	Action taken in 2017/18 Accounts
1 A manual calculation error was identified in 2016/17, in the valuation of one school within the Council's land and buildings balance. The error has led to the Property, Plant and Equipment balance and the Capital Adjustment Account to be overstated by £900,000. Therefore, the total assets and unusable reserves held by the Council are overstated. The decision to not adjust for this issue does not impact upon our audit opinion.		(900) 900	The error is not material to the Accounts or the PPE balance and therefore has not been adjusted. This a small error relative to the total PPE balance of £1.1bn and the Council is not planning to amend this until the next valuation of this school. As it is above triviality we are required to bring this to your attention as those charged with governance.
Overall Impact	£0	£0	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2016/17 financial statements.

Detail	Action taken in 2017/18 Accounts
1 Last year an error was identified in the valuation of one school. The error led to the Property, Plant and Equipment balance and the Capital Adjustment Account to be overstated by £900,000.	This unadjusted error has not been adjusted in the 2017/18 financial statements, and has therefore been reported above as an unadjusted error as it is above triviality level of reporting.
2 The Council was incorrectly crediting revenue contributions to the Capital Grant and Contributions Unapplied Account (CGUA). This caused the CGUA to be overstated and earmarked reserves to be understated. This would have had no net impact on the balance sheet position and the adjustment would have been classification only.	The balance in CGUA has been utilised fully in capital expenditure in 2017/18.

Fees

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

Audit Fees

	Proposed fee (£)	Final fee
Council Audit	114,615	114,615
Total audit fees (excluding VAT)	114,615	£114,615

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). The Objection costs are still to be finalised and we will report those costs in due course.

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

Non Audit Fees

Fees for other services	Fees (£)
Audit related services:	
• Grant Certification – Teachers' Pension return	4,900
• Harbour Accounts specified procedures	1,000
Non-audit services	
• Cost Assurance	1,427
	7,327

Audit opinion

We anticipate we will provide the Council with a modified audit report

Independent auditor's report to the members of Cumbria County Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cumbria County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Accounting Statements including the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement, the Group Accounting Statements including the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet and the Cash Flow Statement, and all notes to the Accounting Statements and Group Accounting Statements, including the Accounting Policies, and include the Fire Fighters Pension Scheme financial statements comprising the Fund Account, the Net Assets Statement and notes to the financial statements. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 3 to 240 and the Annual Governance Statement other than the group and Authority financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 21 to 22, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance. The Director of 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit and Assurance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Qualified conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, except for the effects of the matters described in the basis for qualified conclusion section of our report, we are satisfied that in all significant respects, the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Basis for qualified conclusion

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

Following a legal contractual dispute settled in November 2016 the Authority carried out a lessons learned review, which resulted in a number of agreed management actions in September 2017. These actions were designed to address weaknesses in contract management arrangements.

As a result of the lessons learned review, the Authority acknowledged that, it needed to improve the robustness of its overarching contract management arrangements with appropriate capacity, capability, performance monitoring, risk and escalation management of all major contracts, and to improve arrangements for the management of any future contract disputes.

During 2017/18 the Authority has made progress in implementing the actions determined in the review, but as at 31 March 2018 these actions have not been fully embedded.

As these actions were not fully embedded throughout the financial year, this matter is evidence of weaknesses in proper arrangements for acting in the public interest, through demonstrating and applying the principles and values of sound governance and for working with third parties effectively to deliver strategic priorities.

Responsibilities of the Authority

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

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 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.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of an objection brought to our attention by a local authority elector under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that this matter does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Signature to be added

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

110 Queen Street
Glasgow
G1 3BX

To be added

