

This matter is being dealt with by:

Lee Jardine  
01900 702502

24 November 2020

Dear Councillor

I enclose for information to follow items

**9. Audit Findings Report (Page 3 – 32)**

To be considered at Audit Committee on Tuesday 24 November 2020.

Yours faithfully



**Chief Executive**



Allerdale - a great place  
to live, work and visit

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# The Audit Findings Report for Allerdale Borough Council

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Year ended 31 March 2020

November 2020

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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 findings and other matters arising from the statutory audit of Allerdale Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council with additional challenges of reopening services under new government guidelines. Council staff have had to adapt to working from home and accessing key systems remotely.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic and included an additional financial statement level risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit teams have had to adapt to new remote access working arrangements. This has included the use of video calling and screensharing for the verification of completeness and accuracy of information produced by the entity, and information sharing through our cloud based software.</p> <p>The accounts were provided to us on 14 August and working papers have been provided throughout the audit.</p>
<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and</li> <li>• have 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.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, 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 remotely between August and November 2020. Our findings are summarised in this report. We have identified one adjustments to the financial statements that has resulted in a £0.655m adjustment to the Council's Defined Benefit Pension Scheme Liability. This adjustment had no impact on the Council's Useable Reserves. Audit adjustments are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion as outlined in Appendix D or material changes to the financial statements, subject to the resolution of the outstanding matters listed on page 5.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation, post audit changes as outlined on page 15.</p> <p>Our anticipated audit report opinion will be unqualified and unmodified but will include an emphasis of matter paragraph, highlighting land and building and investment property valuation material uncertainties in respect of the Council's own assets and the Council's share of the Cumbria Local Government Scheme's direct property investments and investments in unquoted property funds. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year. A paragraph has been added to indicate these matters, which is now adequately disclosed in the Council's financial statements and we consider is fundamental to a readers' understanding of the financial statements.</p>

# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Allerdale Borough Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

## Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, 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').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that Allerdale Borough Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

The Council has had some major initiatives including the waste contract and the stadium that have presented significant Value for Money challenges to deal with during 2019/20, especially in the context of an already difficult financial sustainability climate. We did consider a qualification of our Value for money conclusion but the local engagement team supported by a national Grant Thornton consistency VfM panel concluded that an unqualified VfM conclusion is appropriate. Despite there being clear examples of ineffective economy, efficiency and effectiveness for an element of the year, the Council's arrangements including scrutiny task and finish group interventions, ensured remedial action was taken during the year. The Council has incurred irrecoverable costs of £1.3 million since 2018, which has had a detrimental impact on the Council's useable reserves position. We do acknowledge that, if the Council had continued with certain original planned initiatives it may have been exposed to greater financial risk. It is critical the Council learns the lessons from recent events to ensure future arrangements limits its exposure to any unnecessary liabilities, while ensuring services deliver VfM.

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current pandemic environment. We have not identified any new VfM risks in relation to Covid-19.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix D. Our findings are summarised on pages 18 to 20.

## Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of our work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times. The Accounts have been produced to a very high standard and the finance team have produced good working papers and have been responsive to our audit queries.

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report 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 will be discussed with management and the Audit Committee.

As your auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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 group's business and is risk based, and in particular included:

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that an analytical procedures at the group level was appropriate for subsidiaries within the group, and a full scope statutory audit is performed on the Council's single entity financial statements; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you on 29 July 2020. Our plan included a financial statement level risk reflecting our response to the Covid-19 pandemic.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	824,000	822,000	1.75 % of prior year gross cost of services expenditure, which we believe equates to what would be material to the reader of the accounts.
Performance materiality	618,000	616,000	75% of headline materiality, reflecting the Council's strong control environment and history of producing high quality financial statements.
Trivial matters	41,000	41,000	5% of headline materiality.
Materiality for Senior Officer Remuneration	10,000	10,000	Based on what would be material to the reader of the accounts for this sensitive area.

## 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.

As detailed below, materiality levels remain the same as reported in our audit plan.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit report opinion, as detailed in Appendix D, in line with 30 November 2020 statutory deadline. These outstanding items include:

- receipt of management representation letter;
- testing of valuation of the Council's land and buildings and investment property;
- group accounts works;
- completion of our work on the valuation of the pension fund net liability following receipt of evidence from the pension fund auditor;
- closure of a small number of audit samples and procedures in relation to disclosure notes;
- engagement manager and engagement lead quality review; and
- review of the final set of financial statements.

# Significant audit risks

## Risks identified in our Audit Plan

### Covid- 19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation

Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates

- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We worked with management to understand the implications of and the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 14 August 2020. We have also:

- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained using alternative approaches whilst working remotely;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and
- discussed with management the implications for our audit report opinion.

The results of our work concluded that appropriate arrangements have been put in place to manage the Covid-19 situation and suitable disclosures have been made in the financial statements. This includes the use of alternative arrangements in the decision-making process as permitted by the Council Constitution. We were able to obtain sufficient audit evidence by utilising screensharing for the verification of completeness and accuracy of information produced by the Council, and share information through our cloud based software.

Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (as set out in VPS 3 and VPGA 10 of the RICS Valuation Global Standards). You have disclosed this material uncertainty within Note 4 of the financial statements. Following audit, Note 4 has been updated to reflect the impact of Covid-19 on the valuation of the Authority's share of Cumbria Local Government Pension Scheme's direct property investments and investments in unquoted property funds. The note states that fair value measurement of these investments at 31 March 2020 is subject to a material valuation uncertainty (issued in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards).

We will reflect your disclosures within an "emphasis of matter" paragraph in our audit report opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted the same material valuation uncertainty.

There were no other findings in respect of this significant risk.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of land, buildings and investment property

The Council revalues its land and buildings on a rolling five-yearly basis. Investment properties are revalued annually.

These valuations represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Additionally, for land and buildings, management will need to ensure the carrying value in the Council and group financial statements is not materially different from the current value or the fair value (for surplus assets and investment property) at the financial statements date, where a rolling programme is used.

We therefore identified valuation of land and buildings and investment property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities.

The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

The Council's valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- written to the valuer to confirm the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Our testing identified that the Council's Investment Property balance includes an Asset Under Construction carried at a cost of £212,000. This does not impact the amount carried in the balance sheet but Note 20 should be updated to reflect the amount carried at cost. Please refer to Appendix B for further details.

Our audit work to date has not identified any other issues in respect of valuation of land, buildings and investment property.

Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards). You have disclosed this material uncertainty within Note 4 of the financial statements. We will reflect your disclosure within an "emphasis of matter" paragraph in our audit report opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted the same material valuation uncertainty.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any evidence of management over-ride of controls.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

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## Auditor commentary

We have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- evaluated the instructions issued by management to their actuary for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and
- obtained assurances from the auditor of Cumbria Local Government Pension Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

Our audit work to date has not identified any significant issues in relation to the risk identified.

Similarly to the valuation of land and buildings, there is also an impact of Covid-19 on the valuation of the LGPS pension fund property assets. Cumbria's Local Government Pension Scheme's accounts include a material uncertainty around the valuation of pension fund's property assets and the auditor of Cumbria Pension Fund intends to include an emphasis of matter in their auditor's report in respect of the effects of Covid-19 on the valuation of its direct and indirect property holdings. Your financial statements disclosures have been updated within Note 4 to reflect this and our audit report opinion will also contain an "emphasis of matter" paragraph in this respect.

The estimate of the Authority's share of assets held by the Cumbria Local Government Pension Scheme was based on an interim valuation of the Pension Scheme. Cumbria LGPS's draft accounts show that the actual value of the Pension Scheme was £16.014 million lower than the interim valuation. The Council's share of this reduction in value was £0.655 million. The audited accounts have been updated to reflect this reduction in value. The amounts reported in the unaudited statements were based on information provided by the scheme actuary in May and based on an interim valuation of the pension scheme. It was not until 26 August - i.e. after the Council had published its unaudited statements that it was informed of updated valuation of pension scheme assets. See Appendix B for further details.

### Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

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:

- 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 Allerdale Borough Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Allerdale Borough Council. The risk is rebutted.

## Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary
<p><b>IFRS 16 implementation has been delayed by one year</b></p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases</p>	<p>Management has made reference to IFRS 16 in Note 5, Impact of New Accounting Standards not yet Adopted. Further disclosures, in line with IAS 8 are not included on the grounds that IFRS 16, is not included in the standards introduced by the 2020/21 Code. Management's view is that IFRS 16 has an expected, but as yet unconfirmed, effective date for local authorities of 1 April 2021. It is Management's view that Local authorities are not required to include IFRS 16 in their consideration of accounting standards that have been issued but not yet adopted</p> <p>We acknowledge management's position and are satisfied that Note 5 is free from material disclosure omissions.</p>

# Significant findings arising from the group audit

Component	Findings	Group audit impact
<b>Allerdale Borough Council</b>	<ul style="list-style-type: none"> <li>Statutory audit performed by Grant Thornton UK LLP.</li> <li>Significant risks are those as outlines on pages 6 to 8 of this report</li> </ul>	<ul style="list-style-type: none"> <li>Any issues arising are already outlined on pages 6 to 9 of this report for the work on the Allerdale Borough Council single entity financial statements.</li> </ul>
<b>Keswick Museum and Art Gallery</b>	<ul style="list-style-type: none"> <li>Analytical procedures are performed at group level to review the consolidation process.</li> <li>Keswick Museum and Art Gallery is a subsidiary.</li> <li>We have reviewed the consolidation undertaken by the Council to the financial records of the component.</li> </ul>	<ul style="list-style-type: none"> <li>The consolidation of Keswick Museum and Art Gallery has been agreed through to the supporting records of the Council and to the financial records of the component which are held at the Council.</li> <li>There are no issues to note from the work undertaken.</li> </ul>
<b>Helena Thompson Museum</b>	<ul style="list-style-type: none"> <li>Analytical procedures are performed at group level to review the consolidation process.</li> <li>Helena Thompson Museum is a subsidiary.</li> <li>We have reviewed the consolidation undertaken by the Council to the financial records of the component.</li> </ul>	<ul style="list-style-type: none"> <li>The consolidation of Helen Thompson Museum has been agreed through to the supporting records of the Council and to the financial records of the component which are held at the Council.</li> <li>There are no issues to note from the work undertaken.</li> </ul>
<b>Allerdale Investment Partnership LLP (AIP)</b>	<ul style="list-style-type: none"> <li>Analytical procedures are performed at group level to review the consolidation process.</li> <li>AIP is a joint venture partnership and is accounted for using the equity method as the Council jointly controls the company.</li> <li>We have reviewed the consolidation undertaken by the Council to the financial records of the component.</li> </ul>	<ul style="list-style-type: none"> <li>The consolidation of AIP has been agreed through to the supporting records of the Council and to the final financial statements of the partnership.</li> <li>There are no issues to note from the work undertaken.</li> </ul>
<b>Allerdale Waste Services Limited</b>	<ul style="list-style-type: none"> <li>Analytical procedures are performed at group level to review the consolidation process.</li> <li>Allerdale Waste Services Limited is a subsidiary.</li> <li>We have reviewed the consolidation undertaken by the Council to the financial records of the component.</li> </ul>	<ul style="list-style-type: none"> <li>The consolidation has been agreed through to the supporting records of the Council and management accounts of the component.</li> <li>There are no issues to note from the work undertaken.</li> </ul>

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<p><b>Land and Buildings – £48.6 million (group accounts)</b></p> <p><b>Investment Property - £24.8 million (group accounts)</b></p>	<p>Land and buildings comprises specialised assets such as, sports and leisure centres, public conveniences and museums and theatres. These are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings including office accommodation and car parks are not specialised in nature and are required to be valued at existing use in value (EUV) at year end.</p> <p>Investment property and surplus assets are required to be valued annually and at fair value.</p> <p>The Council has engaged Wilks, Head &amp; Eve to complete the valuation of properties as at 31 March 2020. The Council revalues its land and buildings on a rolling programme with a maximum period of five years between revaluations. Investment properties are revalued annually according to market conditions at the balance sheet date. All investment properties were revalued at 31 March 2020.</p> <p>80% of land and building assets that are subject to valuation were revalued during 2019/20. The valuation of land and buildings valued by the valuer has resulted in a net increase of £2.038 million.</p> <p>Management has considered the year end value of non-valued land and buildings, and the potential valuation change in the assets revalued at 31 March 2020, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the value.</p>	<p>The Council's accounting policy on valuation of land and buildings and investment property is included at Accounting Policy 17 and 14 respectively.</p> <p><b>Key observations</b></p> <p>The values in the valuation report have been used to inform the measurement of property assets at valuation in the financial statements.</p> <ul style="list-style-type: none"> <li>In line with RICS guidance, Wilks Head and Eve has identified a material uncertainty regarding the valuation of land and buildings and investment property due to market uncertainty arising from the Covid-19 pandemic. Management have disclosed this material uncertainty in Note 4 to the financial statements.</li> <li>We assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate.</li> <li>The underlying information and sensitivities used to determine the estimate was considered to be complete and accurate.</li> <li>The valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.</li> <li>We have uplifted assets not-valued in year using Gerald Eve indices and considered local market factors to support management's assessment that there has been no material changes to the valuation of land and buildings not-valued in year.</li> <li>We consider the level of disclosure in the financial statements to be appropriate.</li> </ul> <p><b>Conclusion</b></p> <p>We are satisfied that the estimate of your land and buildings and investment property valuation is not materially misstated, subject to resolution of our final audit work in this area.</p>	

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

## Assessment

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
<b>Net pension liability – £34.2m</b>	<p>At 31 March 2020, the Council's net pension liability was £34.2m (31 March 2019: £33.5m) comprising the Cumbria Local Government Pension Scheme benefit obligations.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £0.763m increase in the net pension liability during 2019-20.</p>	<p>In understanding how management has calculated the estimate of the net pension liability we have:</p> <ul style="list-style-type: none"> <li>assessed the use of a management's expert actuary;</li> <li>assessed the actuary's calculation approach;</li> <li>used PwC as auditors expert to assess actuary and assumptions made by the actuary (see table below);</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.3% - 2.4%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.2%</td> <td>2.1% - 2.2%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.6%</td> <td>3.35% - 3.6%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.2/ 22.6</td> <td>22.5 – 24.7 / 20.9 – 23.2</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>27.1/ 25.2</td> <td>25.9 – 27.7 / 24.0 – 25.8</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>undertook a reasonableness test of the Council's share of LGPS pension assets;</li> <li>assessed the reasonableness of the movement in the estimate; and</li> <li>assessed the adequacy of disclosure of estimate in the financial statements.</li> </ul>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4%	2.3% - 2.4%	●	Pension increase rate	2.2%	2.1% - 2.2%	●	Salary growth	3.6%	3.35% - 3.6%	●	Life expectancy – Males currently aged 45 / 65	24.2/ 22.6	22.5 – 24.7 / 20.9 – 23.2	●	Life expectancy – Females currently aged 45 / 65	27.1/ 25.2	25.9 – 27.7 / 24.0 – 25.8	●	●
Assumption	Actuary Value	PwC range	Assessment																								
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		<p><b>Conclusion</b></p> <p>As disclosed on page 8, the net pension liability was restated by £0.655 million following audit. The amounts reported in the unaudited statements were based on information provided by the scheme actuary in May and based on an interim valuation of the pension scheme. It was not until 26 August - i.e. after the Council had published its unaudited statements that it was informed of updated valuation of pension scheme assets. See Appendix B for further details. A material uncertainty was added to note 4 in relation to the Council share of Cumbria Local Government Pension Scheme's direct property investments and investments in unquoted property funds. We are satisfied that the estimate of your net pension liability is not materially misstated, subject to receipt of assurances from the auditor of Cumbria Pension Fund.</p>																									

### Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – 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

### Management's assessment process

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. The Council has revised its 2020/21 revenue budget to include all additional government funding announced to date for responding to Covid-19. The revised budget incorporates a reduction in fees and charges income (particularly car parking, trade waste and planning fees) and loss of rental/ commercial income. The Authority is not expecting the pandemic to have a major impact on its general fund balances in 2020/21 and there is a significant increase in earmarked reserves forecast as well, reflecting in large part the additional section 31 grant received in 2020-21 in respect of business rates. This will be appropriated to earmarked reserves in 2020-21 and released in 2021-22 to offset the reduction in Business Rate income arising from the deficit accruing in 2020-21.

### Work performed

We discussed the financial standing of the Council with the Head of Financial Services and reviewed management's assessment of going concern, including the updated 2020-21 budget and medium term strategy. We have challenged key assumptions and corroborated to supporting information.

### Concluding comments

The Council's use of going concern basis of accounting is appropriate.

## Auditor commentary

- The Council's use of the going concern basis of accounting is appropriate.
- The Council's has provided us with its working paper for its assessment of going concern.
- The Council's going concern assessment is supported by its updated 2020/21 budget. The Council has updated its 2020-21 budget to reflect the impact of Covid and has set a balanced budget. This includes non-recurring growth of £3.691 million and savings bids of £0.791 million which relate to the impact of Covid. It also includes recurrent savings of £0.516 million
- The Council's general fund balance is budgeted to be £3.314 million at 31 March 2021, above its minimum balance of £2,700. Earmarked reserves are budgeted to be £7.761 million at 31 March 2021, including £6.2 million additional section 31 grant payable in 2020-21, which will be released in 2021-22 to offset the reduction in business rates income.
- The Council expects to remain under-borrowed against its CFR through to 31 March 2021 by circa £3 million.
- The Council has a strong Cash and Short Term Investment position. At 16 November, balances were £32.3m compared to £20.3 million at the corresponding date in 2019/20 and £21.4 million in 2018/19. On audit request the Council has prepared a forecast to support its Going Concern assessment through to 31 March 2022.

No material uncertainty identified. The Council's use of the going concern basis of accounting is appropriate.

Our audit report opinion is unmodified in respect of going concern.

## Other matters for communication

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	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A letter of representation has been requested from the Council, including specific representations in respect of the Group and the impact of Covid-19.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to bank and investment counterparties. This permission was granted and the requests were sent. All requests were returned with positive confirmation.
<b>Disclosures</b>	Our review found no material omissions in the financial statements. A small number of disclosure, presentational and consistency amendments have been made to the financial statements arising from the audit.
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided. Our findings are subject to the satisfactory completion of our work and the matters set out on page 5.

# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>A number of changes were made to the Annual Governance Statement following audit:</p> <ul style="list-style-type: none"> <li>• Detail on the group control environment was added, to paragraphs 5.4 and 5.5. covering governance arrangements relating to Allerdale Investment Partnership and Allerdale Waste Services.</li> <li>• An overall opinion was added to paragraph 5.10 and 6.1, stating the overall level of assurance the authority's governance arrangements provide.</li> <li>• A table was added to paragraph 6.1 summarising the significant governance issue identified in relation to Corporate Procurement and Contract Management. This also includes a brief action plan to address areas identified for improvement.</li> <li>• Further detail was added to paragraphs 4.26 to 4.29 around the findings and recommendations of the Local Government Association Peer Challenge and External Governance Review.</li> </ul> <p>No other inconsistencies have been identified.</p>
<b>Matters on which we report by exception</b>	<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"> <li>• 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</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters post the audit adjustments highlighted above.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<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>Note that work is not required as the Council does not exceed the threshold.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2019/20 audit of Allerdale Borough Council in the audit report opinion, as detailed in Appendix D.</p>

# Value for Money

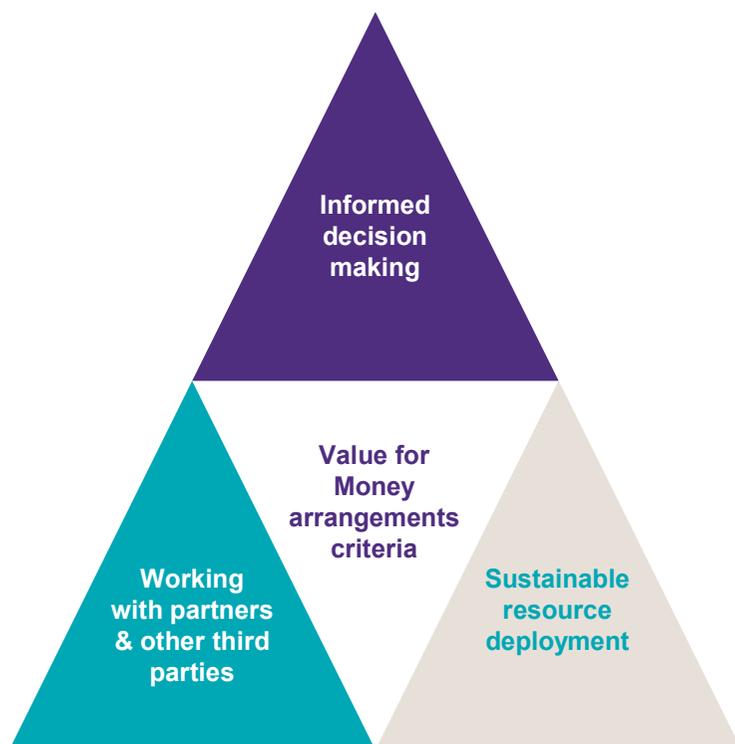
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 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 February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan.

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 have not identified any new VFM risks in relation to Covid-19. We do not consider Covid-19 to be a significant risk given the date of the pandemic.

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.

# Value for Money

## 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:

- The Council's Financial sustainability;
- Waste and recycling contract and procurement arrangements; and
- Decision making arrangements in relation to Workington Community stadium.

We will set out in more detail the risks we identified, the results of the work we performed, and the conclusions we drew from this work on 18 to 20.

## Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Council has had some major initiatives including the waste contract and the stadium that have presented significant Value for Money challenges to deal with during 2019/20, especially in the context of an already difficult financial sustainability climate. We did consider a qualification of our Value for money conclusion but the local engagement team supported by a national Grant Thornton consistency VfM panel concluded that an unqualified VfM conclusion is appropriate. Despite there being clear examples of ineffective economy, efficiency and effectiveness for an element of the year, the Council's arrangements including scrutiny task and finish group interventions, ensured remedial action was taken during the year. The Council has incurred irrecoverable costs of £1.3 million since 2018, which has had a detrimental impact on the Council's useable reserves position. We do acknowledge that, if the Council had continued with certain original planned initiatives it may have been exposed to greater financial risk. It is critical the Council learns the lessons from recent events to ensure future arrangements limits its exposure to any unnecessary liabilities, while ensuring services deliver VfM.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

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

## 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.

# Value for Money

## 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
<p><b>Financial Sustainability</b></p> <p>The Medium Term Financial Plan (MTFP) assumes achievement of recurring savings of £1.285 million in 2019/20. The Plan requires further savings of £0.252 million in 2020/21 and £0.550 million in both 2021/22 and 2022/23. Funding streams for 2021/22 onwards remain uncertain due to expected government reforms of business rates and the funding formula.</p> <p>The MTFP was refreshed in February 2020 as part of the 2019/20 budget setting process. This shows an unfinanced budgetary gap of £1.972 million in 2021/22 and £1.791 million in 2022/23. The 2020/21 budget shows the General Fund falling to £1.376 million in 2021/22, which is below the Council's minimum balance of £2.700 million. The General Fund balance is projected to be fully utilised in 2022/23 with an unfunded deficit of £0.415 million.</p> <p>The Council has a good record of delivering savings but the level of savings required over the remaining period of the MTFP represents a significant challenge. The use of earmarked reserves and general fund reserves in 2019/20 has reduced the Council's reserves balances.</p> <p>The response and impact from the Covid-19 crisis on the financial sustainability of the Council will also be included in our work.</p> <p>We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We will also consider the arrangements in place to monitor the identification and delivery of savings. This work is part of the sustainable resource deployment sub-criterion.</p>	<p>The Council has good financial 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 savings requirements are reported throughout the year and actions agreed to close the budget gap as required. The Council's financial performance in 2019/20 has resulted in a net charge to General Fund balances (earmarked and un-earmarked) of £0.966 million. The Medium-Term Financial Plan (MTFP) assumed achievement of recurring savings of £1.285 million in 2019/20. Planned recurrent savings were delivered.</p> <p>During 2019/20, the Council incurred additional cost of circa £0.9 million in relation to challenges associated with waste collection (see page 20). This was funded by contribution from the general fund. Costs of £0.632 million were also written off in relation to the Workington Community Stadium project (see page 19).</p> <p>The general fund balance is budgeted to be £3.314 million at 31 March 2021. This is an increase from £3.144 million at 31 March 2020, which has deteriorated from £3.891 million at 31 March 2019 and £4.921 million at 31 March 2018. Earmarked General Fund reserves have also fallen over this period from £3.8 million at 31 March 2018 to £3.248 million at 31 March 2020, while projected to be £7.761 million at 31 March 2021. However, the projected balance at 31 March 2021, includes additional Section 31 grant payable in 2020-21 of £6.2 million, which will be released in 2021-22 to offset the reduction in business rates income. Overall, there is a clear downward trajectory in the Council's useable reserves.</p> <p>The Council has revised its 2020-21 budget to reflect the impact of Covid and has set a balanced budget. The balanced budget assumes that government support will continue through the second Covid wave. We have reviewed the Covid19 impact on the related group activities assessment by management and concur that, there are no significant financial ramifications for the Council.</p> <p>The Council's pre Covid MTFP was updated in February 2020 as part of the 2020/21 budget setting process. This showed an unfinanced budgetary gap of £1.972m in 2021/22 and £1.791m in 2022/23. The Council's 2021-22 budget strategy considers the impact of Covid-19 and indicates the budgetary gap is now £0.033m in 2020/21, £0.955 million in 2021/22, £2.178 million in 2022/23 and £2.320 million in 2023/24. The Council is working on a range of proposals to close this budget gap and maintain general fund balances above minimum levels, which are set at £2.7 million throughout the term of its MTFP.</p>	<p>Overall, the Council has effective financial planning and financial management arrangements in place. The Council has a good record on delivering savings and delivered its planned recurrent savings in 2019/20. The delivery of future planned savings will be even more challenging in context of irrecoverable costs from the waste contract and stadium and Covid-19 impact. The Council should continue to put robust budget monitoring arrangements in place to ensure planned savings are delivered.</p> <p>We have noted that the Council has a deteriorating financial position. Additional costs in relation to waste have placed pressure on the Council's usable reserves. If future budget gaps are not addressed, there is a risk that General Fund balances will fall below the Council's minimum balance of £2.7 million and be completely utilised through the term of its MTFP.</p> <p>We recommend that management carry out a detailed sensitivity analysis around the key uncertainties and assumptions included in its MTFP, to aide the agility now needed to manage the Council's financial sustainability. We recommend the Council continues to explore opportunities to close the current budgetary gap reflected in its MTFP. See Appendix A for management response.</p>

# Value for Money

## Significant risk

### Workington community stadium project

A full business case for the construction of a new sports stadium was approved by the Executive on 22 March 2019. This Council had won the right to host 3 games in the Rugby League World Cup in 2021. Following elections in May 2019, the new Executive reversed the approval of the full business case and determined that the size and scale of the specification should be reduced. The Council has withdrawn from the proposal to host the World Cup games. The Council incurred £1.1 million of costs in 2018/19 for the stadium including the purchase of the Lonsdale Park land.

WG will review the Council's arrangements in place for determining the future direction of the scheme during 2019/20. This work is part of the informed decision making sub-criterion.

## Findings

The Council incurred £1.159 million of costs in 2018/19 for the stadium including the purchase of the Lonsdale Park land. Around 55% of these costs, equating to £0.632 million have been lost. During 2019/20, the Council continued to progress the stadium project and the remainder of the expenditure is relevant to the future project. The previously capitalised expenditure was financed from revenue. Therefore, the write-off and unwinding of the capital financing transactions (£0.550 million in the 2019/20 accounts) had no impact on usable reserves.

During 2019/20 the Council's Overview and Scrutiny Committee and Programme Management Office have critically evaluated the decision making in relation to the Workington community stadium project. This indicates good arrangements for scrutiny and review of key decisions.

The Council's Programme Management Office carried out a post implementation review of the Stadium project, to evaluate whether project objectives were met, to determine how effectively the project was run, to learn lessons for the future, and to ensure that the Council gets the greatest possible benefit from future projects. It found, that whilst the project was not successful, in terms that it did not proceed to construction of the asset, it was in terms of the development of a business case, scheme design and submission of a planning application. Recommendations in future relate to:

- wider stakeholder engagement to ensure buy in. The report confirms, the leader has already instigated member wide engagement on key priorities;
- ensuring an effective Capital Projects governance framework to ensure that Public sector requirements are addressed. The report confirms, all projects now follow the Governance and sign off process set up by the Programme Office. This includes assurance and executive/ council sign off at key points, dependant on the decision; and
- having a capital programme manager to advise the project team. The report confirms that a salary has been set aside for a capital programme manager to be used at key points to ensure that capital projects are delivered efficiently and effectively with the right level of expertise at key points, dependant on the decision.

The Council has continued to progress the project during 2019/20 and in 2020/21, plans for a scaled back stadium are included in a £25 million bid for the government Town's Fund, as part of a wider plan to invest in line with the Council's priorities.

## Conclusion

Our work indicates that key learnings from the previous stadium project, are starting to become embedded in the Council's arrangements for delivering large capital projects. Key learnings and recommendations were acted upon during the 2019/20 year.

The Council has good arrangements for scrutinising, challenging and learning from significant decisions. Whilst the Council has written off costs in relation to this project, the potential cost and risks associated with not acting and continuing with the existing project, could have been much greater.

The Council has progressed the project during 2019/20 and has included it as part of a government Town's Fund bid, which could secure significant funding for the area.

See Appendix A for a recommendation and management response in relation to ensuring key Scrutiny related recommendations are addressed and learning embedded into the Council's future arrangements.

# Value for Money

## Significant risk

### Waste and recycling contract and procurement arrangements

There was a re-tendering exercise for the provision of refuse, recycling, street cleansing and grounds maintenance services in 2018/19. The contracts took effect from 1 April 2019. The Council has now decided to bring the Waste and Recycling service in-house from 6 April 2020. Given the significance of this contract to the Council in terms of service delivery and the expenditure involved, there is a significant risk around the Council's consideration of delivery options for the Waste and Recycling service and the procurement arrangements.

We will review the Council's arrangements in place for evaluation of service delivery options for Waste and Recycling. This work is part of the informed decision making sub-criterion.

## Findings

During 2019/20, Council Waste and Recycling services were delivered by a third-party contractor. A formal service agreement was not entered into prior to commencement of service and the service was delivered under temporary service agreements through the year. There was significant disruption to the provision of Waste and Recycling services during 2019/20. Between week 3 and week 14, between 6.2% and 25.7% of bins were missed for collection. There was also a temporarily suspension of the collection of garden waste, glass, plastic and cans between July and September 2019.

The Council took prompt action to address this failure of service and undertook comprehensive options appraisal for future delivery of Waste and Recycling services. In September 2019, the Council voted to establish a Council-owned company (Allerdale Waste Services) to provide the services from April 2020. The other options considered were continuing with the existing contractor or direct in-house provision. We have reviewed the decision making and options appraisal and are satisfied that it was reasonable, taking into account legal, governance, financial, HR and reputational risk considerations. A key factor in the decision taken was the greater potential of a Council owned company to achieve efficiencies and respond to changing demands for service in the future. The Council is looking to achieve savings of circa £1 million from waste services going forward, with proposals such as charging for green waste, fortnightly collection for residual waste and charging for bin replacements under consideration.

Contractual issues and costs associated with legal advice and examining future delivery models, meant the Council incurred circa £0.909 million of additional expenditure during 2019/20, which was funded by a contribution from the general fund.

Decision made in relation to the provision of the service during 2019/20 have been reviewed by the Council's Programme Management Office and a Procurement Task and Finish Group. This indicates good arrangements for scrutiny and review of key decisions. The Task and Finish Group raised 9 recommendations, relating to the procurement process. The Programme Management Office has also raised 3 key recommendations. These include ensuring the Council has accurate and robust data on which to establish need in each service area and that council officers understand all stages of the procurement process. It also recommended that savings targets should be subject to robust challenge to check that they are achievable, desirable and going to be accepted by elected members.

The Council has demonstrated that it took action to address these recommendations during the 2019/20 year. In 2020/21 Allerdale Waste Services is performing ahead of budget and is subject to monthly performance and financial monitoring. This indicates learning from the previous Waste and Recycling contract is taking place.

## Conclusion

The Council has good arrangements for scrutinising, challenging and learning from significant decisions. The Council acted promptly to address service failings during 2019/20, to ensure it was not exposed to even greater risk from continuing service delivery failings.

The Council's own arrangements have identified weaknesses in their procurement and contract management arrangements in relation to the Council's former Waste and Recycling contract. A number of recommendations have been raised by the Programme Management Office and Procurement Task and Finish Group. These should all be addressed to ensure that future procurement decisions deliver their intended outcomes.

Additional costs in relation to waste in 2019/20 have placed further pressure on the Council's usable reserves. The Council should continue to closely monitor the performance of Allerdale Waste Services to ensure that no further financial pressures are created in relation to the provision of waste and recycling services and planned efficiency saving are achieved.

See Appendix A for a recommendation and management response in relation to ensuring key recommendations are addressed and learning embedded into the Council's arrangements.

# Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

## **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. No non-audit services were identified.

# Action plan – Value for Money

We have identified 2 recommendations for the group 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 2020/21 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
<p> <b>Medium</b></p>	<p><b>Financial Sustainability</b></p> <p>The Council has a deteriorating financial position, with a downward trajectory in useable reserves. The Council's 2021-22 budget strategy considers the impact of Covid-19 and indicates the budgetary gap is now £0.033m in 2020/21, £0.955 million in 2021/22, £2.178 million in 2022/23 and £2.320 million in 2023/24. The Council is working on a range of proposals to close this budget gap and maintain general fund balances above minimum levels (£2.7 million) throughout the term of its MTFP. There is considerable uncertainty in the medium term over the impact of Covid-19 and future government funding.</p>	<p>Carry out a detailed sensitivity analysis around the key uncertainties and assumptions included in the Budget outturn 2020/21 and revisions to the MTFP to assist agile financial management to secure the Council's medium term financial sustainability in the light of the uncertain context for Local Government.</p> <p>Challenge the development of proposals for closing and identifying the budget gap in the MTFP, to ensure they are both realistic and deliverable.</p> <p><b>Management response</b></p> <p>Agreed. The Council is looking at ways to improve the alignment between the MTFP, Capital Strategy and Council Plan. The government acknowledges that COVID presents real challenges for all Councils and we are working on projects to deliver the required savings in 2021/22 and beyond including:-</p> <ul style="list-style-type: none"> <li>• Review of SMT to reduce costs and create focus on key activity</li> <li>• Introduction of a new Target Operating Model (TOM) to drive efficiency and effectiveness to deliver even better services at lower cost by improving productivity</li> <li>• Linked to point above, a range of service review activity to increase income and reduce costs</li> <li>• New Contracts and Commercial Manager post to be introduced to deliver improved contract management and commercial activity</li> </ul>
<p> <b>Medium</b></p>	<p><b>Major projects and procurements</b></p> <p>Weaknesses in procurement, project and contract management arrangements in relation to the Workington Community Stadium project and the Waste and Recycling Contract have exposed the Council to increased operational, financial and reputational risks. A number of recommendations have been raised by the Programme Management Office and Procurement Task and Finish Group.</p>	<p>Ensure all recommendations raised by the Programme Management Office and Procurement Task and Finish Group in relation to the Workington Community Stadium Project and Waste and Recycling contract are addressed. Embed key learning into the Council's arrangements for delivering current and future major projects and procurements.</p> <p><b>Management response</b></p> <p>Agreed. We are committed to learning lessons from the Task and Finish Group and are implementing the key findings from the two internal reviews. We have created new project manager posts in the PPO to improve capacity and capability. New role of Contracts and Commercial Manager in the PPO to ensure improved quality assurance in major projects.</p>

## Controls

 High – Significant effect on control system

 Medium – Effect on control system

 Low – Best practice

# 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

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 ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
<b>Pension Assets</b>	655	655	655
The estimate of the Authority's share of assets held by the Cumbria Local Government Pension Scheme was based on an interim valuation of the Pension Scheme. Cumbria LGPS's draft accounts show that the actual value of the Pension Scheme was £16.014 million lower than the interim valuation. The Council's share of this reduction in value was £0.655 million. The audited accounts have been updated to reflect this reduction in value. The Movement in Reserves Statement, Note 17 Unusable Reserves, Note 31 Pensions and the Group Accounts have been updated to reflect this change.	Remeasurement of net defined benefit pension liability	Unusable reserves (655) Net pension liability	
Note, the amounts reported in the unaudited statements were based on information provided by the scheme actuary in May and based on an interim valuation of the pension scheme. It was not until 26 August, after the Authority had published its unaudited statements that it was informed of the updated valuation of pension scheme assets.			
<b>Overall impact</b>	<b>655</b>	<b>Nil</b>	<b>655</b>

## Impact of prior year unadjusted misstatements

Our prior year audit findings report included an unadjusted misstatement in relation to the impact of the McCloud Judgement and a change in the value of the Council's share of Cumbria Local Government Pension Scheme assets. The net impact of these two issues would have been to increase the net defined benefit pension liability by £139,000. This difference is included in the prior year comparator in the 2019/20 financial statements and is immaterial. The Council's net defined pension liability at 31 March 2020, as disclosed in the 2019/20 financial statements, reflects the most up to date valuation of Cumbria Local Government Pension Scheme assets and includes an estimate of the impact of the McCloud Judgement.

# Audit adjustments

## Disclosure changes

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

Area	Detail	Adjusted?
<b>Note 4. Assumptions made about the future and other major sources of estimation uncertainty</b>	The note has been updated to reflect the Impact of Covid-19 on the valuation of the Authority's share of direct and indirect property investments held by the Cumbria Local Government Pension Scheme. The note states that fair value measurement of these investments at 31 March 2020 is subject to a material valuation uncertainty (issued in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards).	✓
<b>Annual Governance Statement</b>	<p>Changes have been made to the Annual Governance Statement as follows:</p> <ul style="list-style-type: none"> <li>Detail on the group control environment was added, to paragraphs 5.4 and 5.5. covering governance arrangements relating to Allerdale Investment Partnership and Allerdale Waste Services.</li> <li>An overall opinion was added to paragraph 5.10 and 6.1 stating the overall level of assurance the authority's governance arrangements provide.</li> <li>A table was added to paragraph 6.1 summarising the significant governance issue identified in relation to Corporate Procurement and Contract Management. This also includes a brief action plan to address areas identified for improvement.</li> <li>Further detail was added to paragraphs 4.26 to 4.29 around the findings and recommendations of the Local Government Association Peer Challenge and External Governance Review.</li> </ul>	✓
<b>Note 20 Investment Property</b>	The Council's Investment Property Balance includes an Asset Under Construction carried at a cost of £212,000. This does not impact the amount carried in the balance sheet. Note 20, table headed "Fair value measurement of Investment property - fair value hierarchy" states that £24.863 million of Investment Property is carried at Fair Value. This is incorrect, as this includes £0.212 million carried at cost. The note should be updated to clarify this.	x

## Impact of unadjusted misstatements

There are no unadjusted misstatements

# Fees

We confirm below our final fees charged for the audit and **confirm there were no fees for the provision of non audit services.**

Audit fees	Proposed fee	Final fee
Council Audit	£51,059	TBC
<b>Total audit fees (excluding VAT)</b>	<b>£51,059</b>	<b>TBC</b>

The fees reconcile to the financial statements:

- Fees per financial statements - £59,000 (£58,559 rounded up)
- Less additional fees 2018/19 not accrued for in 2018/19 financial statements- £7,500
- Equals proposed fee above - £51,059

# Audit opinion

We anticipate we will provide the Group with an unmodified audit report

## Independent auditor's report to the members of Allerdale Borough Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Allerdale Borough Council (the 'Authority') and its subsidiaries and joint venture (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2019/20.

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 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

#### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Head of Financial Services and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

#### 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:

# Audit opinion

- the Head of Financial Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Financial Services 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.

In our evaluation of the Head of Financial Services' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

## Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, investment property and property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings and investment property and the Authority's share of the pension fund's property investments as at 31 March 2020. As disclosed in note 4 to the financial statements, the valuations of investment and operational properties (PPE) are subject to the 'material valuation uncertainty' declaration issued in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards. As at the valuation date, in the case of the assets valued for the 2019-20 accounts, there is a shortage of market evidence to compare to previous market evidence for comparison purposes, to inform opinions of value. Consequently, less certainty and a higher degree of caution should be attached to the valuation than would normally be the case. Our opinion is not modified in respect of this matter.

As disclosed in note 4 to the financial statements, at 31 March 2020 the Council's net pension liability includes the Authority's share of the pension schemes direct property investments and investments in unquoted property funds. The fair value measurement of these investments at 31 March 2020 is subject to the same material valuation uncertainty (issued in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards), outlined above in connection with the valuation of the Authority's investment and operational properties (PPE) at 31 March 2020. Our opinion is not modified in respect of this matter.

## Other information

The Head of Financial Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Authority and group financial statements and our auditor's report thereon. 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 audit 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 Edition' 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.

# Audit opinion

## 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, 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 issue a report 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 make 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 make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

## Responsibilities of the Authority, the Head of Financial Services and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 30, 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 Head of Financial Services. The Head of Financial Services 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Head of Financial Services 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 Head of Financial Services 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 there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## 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](http://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

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### 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.

# Audit opinion

## 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 April 2020, 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 2020.

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 Allerdale Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### Use of our report

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.

[Signature]

Gareth Kelly, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Glasgow

[Date]



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