



This matter is being dealt with by:

Lee Jardine  
01900 702502

23 February 2021

Dear Councillor

I enclose for information an extra item entitled:

**1. Minutes (Pages 3 - 6)**

To sign as a correct record the minutes of the meeting held on 01 February 2021

**6. Annual Audit Letter 2019/20 (Pages 7 - 22)**

To be considered at Audit Committee on Thursday 25 February 2021.

Yours faithfully

**Section 151 Officer**



Allerdale - a great place  
to live, work and visit

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# Agenda Item 1

At a meeting of the Audit Committee held in Zoom Virtual Meeting on Monday 1 February 2021 at 2.00 pm

## Members

Councillor Alan Tyson (Chair)  
Councillor Carole Armstrong  
Councillor Janet King

Councillor Mary Bainbridge (Vice-Chair)  
Councillor Markus Campbell-Savours

Apologies for absence were received from Councillor Vaughan Hodgson and Councillor Adrian Kirkbride

## Staff Present

L Jardine, P McKenzie and S Sewell

## Also Present

R Anderson

### 294. Minutes

The minutes of the meeting held on 24 November 2020 were signed as a correct record.

### 295. Declaration of Interests

None declared

### 296. Questions

None received

### 297. Assurance, Risk and Audit Report for the Quarter Ending 31 December 2020

The Assurance, Risk and Audit (ARA) Officer presented the Assurance, Risk and Audit Report for the Quarter ending 31 December 2020.

Members were advised that the 73.43% performance percentage is slightly below the planned target of 73.72%, this was partly due to annual leave over the festive period. The ARA team were under resourced in Quarter 3, which had been previously explained to members, for Quarter 4 the ARA Auditor will resume her role with the team.

The annual Public Sector Internal Audit Standards (PSIAS) self-assessment had been completed. This document provides the Committee an overview of compliance for Internal Audit Services at the Council.

In relation to Corporate Fraud, all data sets have been submitted to the National Fraud Initiative (NFI), one data set was submitted late, however this was due to resourcing issues and all data sets were accepted by NFI.

The ARA Officer has been supporting the grants teams with fraud work. One suspected fraud was identified which crossed local authority boundaries. This was forwarded to all necessary parties.

Updates were provided on the progress of the annual plan; the Financial Services and ICT audits are at testing stage with a completion date for end of March 2021. The Waste Services and Financial Services audits may be carried forward into 2021/22.

The ARA officer clarified to members that there were zero management actions outstanding following Quarter 3 for 2020/21.

The ARA officer then went through some amendments that had been made to the published draft PSIAS self-assessment, the self-assessment is completed by the Internal Audit Lead, with input and oversight from the Head of Service and CEO. Councillor Campbell-Savours requested further information in relation to the self-assessment including the format it takes in other authorities, the ARA Officer agreed to look into this and email the information.

Members were then presented with the Report Summaries for the Financial Services Review and Ethics and Culture Review.

For the Financial Services review, two recommendations were made in relation to training and benchmarking.

Questions and debate ensued in relation to job descriptions, specifically budgeting, financial management and forecasting.

For the Ethics and Culture Review, two recommendations were made in relation to managers assurance and quality assurance.

Members asked questions in relation to register of interest forms and the testing that was undertaken, it was confirmed that a sample of forms were tested. The Monitoring Officer also confirmed to members that work is ongoing in relation to members register of interest forms such as guidance notes and electronic forms.

Following questions in relation to 'Areas of Improvement' and why they were not followed up, the ARA officer clarified to members that this is based on risk appetite and assessment and if an area of improvement is a risk, it would become a recommendation.

Members and officers agreed to hold workshops in relation to the Roles and Responsibilities and understanding around the council's risk appetite.

### **Agreed**

Members noted the contents of the report.

## **298. Audit Progress Report and Sector Update**

Richard Anderson (Grant Thornton UK LLP) presented the Progress Report and Sector Update. Audit planning has begun for 2020/21 and this involves initial discussions with officers, internal audit reports and a review of minutes from Council and Committee meetings. The interim audit work will take place in March 2021.

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Members were then advised of the Audit Deliverables, with the Annual Audit Letter to be presented at the next Audit Committee, and the Audit Fee and Plan due March 2021.

The Redmond Review was then discussed with members being advised of the key recommendations from the report which include

- A new regulator - the Office of Local Audit and Regulation (OLAR) to replace the Financial Reporting Council's (FRC) role and that of Public Sector Auditor Appointments (PSAA)
- Scope to revise fees - the current fee structure for local audit be revised to ensure that adequate resources are deployed to meet the full extent of local audit requirements
- Move back to a September the deadline for Local Authorities
- Accounts simplification - CIPFA/LASAAC be required to review the statutory accounts to determine whether there is scope to simplify the presentation of local authority accounts

One of the recommendations was for local authorities to implement:

The governance arrangements within local authorities be reviewed by local councils with the purpose of:

- an annual report being submitted to Full Council by the external auditor.
- consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and
- formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually.

Members asked questions in relation to the Redmond Review on value for money, and how the Audit Committee can implement any recommendations.

The Monitoring Officer explained to members that the statutory officers will be reviewing the Redmond Review and its implications and will report to Audit Committee.

Debate then ensued in relation to the recommendations from the review.

Members were then advised that the Annual Audit Letter will be replaced by an Annual Audit Report, which will be more complex, more involved and will lead to better quality working achieving more impact.

Further questions then followed from members in relation to 'kick start housing' and local government re-organisation.

**Agreed**

Members noted the contents of the report.

**The meeting closed at 3.45 pm**

# The Annual Audit Letter for Allerdale Borough Council

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January 2021



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Allerdale Borough Council (the Council) and its subsidiaries and joint ventures (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 28 November 2020.

## Our work

### Materiality

We determined materiality for the audit of the Council and group's financial statements to be £824,000, which is 1.75% of the group's gross cost of services.

### Financial Statements opinion

We gave an unqualified opinion on the Council and group's financial statements on 30 November 2020.

We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the Council's share of the Cumbria Local Government Scheme's direct property investments and investments in unquoted property funds. This uncertainty is caused by the impact of the Coronavirus pandemic on property markets. This does not affect our opinion that the statements give a true and fair view of the Council and group's financial position and its income and expenditure for the year.

### Whole of Government Accounts (WGA)

We completed work on the Council's consolidation return following guidance issued by the NAO.

### Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

### Value for Money arrangements

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.

### Certificate

We certified that we have completed the audit of the financial statements of Allerdale Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

# Executive Summary

## Working with the Council

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 had to adapt to working from home and accessing key systems remotely. 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.

Restrictions for non-essential travel meant both Council and audit teams had to adapt to new remote access working arrangements. This 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.

The accounts were provided to us on 14 August and good quality working papers were provided throughout the audit.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff .

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Grant Thornton UK LLP  
January 2021

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council and group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group financial statements to be £824,000, which is 1.75% of the group's gross cost of services expenditure. We determined materiality for the audit of the Council's financial statements to be £822,000, which is 1.75% of the Council's gross cost of services expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality for senior officer remuneration if £10,000, based on what would be material to the reader of the accounts for this sensitive area.

We set a lower threshold of £41,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

## The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid- 19</b></p> <p>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;</p> <p>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</p> <p>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</p> <ul style="list-style-type: none"> <li>- 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</li> <li>- 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.</li> </ul> <p>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.</p>	<p>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.</p> <p>We also:</p> <ul style="list-style-type: none"> <li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose;</li> <li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>• evaluated whether sufficient audit evidence could be obtained using alternative approaches whilst working remotely;</li> <li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations;</li> <li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and</li> <li>• discussed with management the implications for our audit report opinion.</li> </ul>	<p>Appropriate arrangements were put in place to manage the Covid-19 situation and suitable disclosures were made in the financial statements. This included 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.</p> <p>Due to the potential impact that Covid-19 had on the value of your land and buildings at 31 March 2020, your valuer 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 disclosed this material uncertainty within Note 4 of the financial statements. Following audit, Note 4 was 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).</p> <p>We reflected 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.</p> <p>There were no other findings in respect of this significant risk.</p>

# Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land, buildings and investment property</b></p> <p>The Council revalues its land and buildings on a rolling five-yearly basis. Investment properties are revalued annually.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>• Evaluated management's processes and assumptions for the calculation of the estimate;</li> <li>• evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>• wrote to the valuer to confirm the basis on which the valuation was carried out;</li> <li>• 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;</li> <li>• tested revaluations made during the year; and</li> <li>• 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.</li> </ul>	<p>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.</p> <p>As described on page 7, due to the potential impact that Covid-19 had on the value of your land and buildings at 31 March 2020, your valuer disclosed a material valuation uncertainty within their valuers report (in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards).</p> <p>Our testing identified that the Council's Investment Property balance included an Asset Under Construction carried at a cost of £212,000. This did not impact the amount carried in the balance sheet but Note 20 should have been updated to reflect the amount carried at cost. Our audit work did not identify any other issues in respect of valuation of land, buildings and investment property.</p>
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. 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.</p>	<ul style="list-style-type: none"> <li>• Evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any evidence of management over-ride of controls.</p>

# Audit of the Financial Statements

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>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.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>Understood the processes and controls put in place by management to ensure the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li> <li>evaluated the instructions issued by management to their actuary;</li> <li>assessed the competence, capabilities and objectivity of the actuary;</li> <li>assessed the accuracy and completeness of the information provided to the actuary;</li> <li>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;</li> <li>undertook 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</li> <li>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.</li> </ul>	<p>Our audit work did not identify any significant issues in relation to the risk identified.</p> <p>Similarly to the valuation of land and buildings, there was 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 included 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 were updated within Note 4 to reflect this and our audit report opinion contained an "emphasis of matter" paragraph in this respect.</p> <p>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</p>
<p><b>Improper revenue recognition</b></p> <p>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.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>there is little incentive to manipulate revenue recognition</li> <li>opportunities to manipulate revenue recognition are very limited</li> <li>the culture and ethical frameworks of local authorities, including Allerdale Borough Council, mean that all forms of fraud are seen as unacceptable</li> </ul>	

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the council and group's financial statements on 30 November 2020.

## Preparation of the financial statements

The Council presented us with draft financial statements in August in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 26 November 2020.

## Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in August.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council and group.

A number of changes were made to the Annual Governance Statement following audit. Detail on the group control environment was added, covering governance arrangements relating to Allerdale Investment Partnership and Allerdale Waste Services. An overall opinion was added, stating the overall level of assurance the authority's governance arrangements provide. A table was added summarising the significant governance issue identified in relation to Corporate Procurement and Contract Management. This also included a brief action plan to address areas identified for improvement. Further detail was added around the findings and recommendations of the Local Government Association Peer Challenge and External Governance Review.

## Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which confirmed the Council was below the audit threshold.

## Certificate of closure of the audit

We certified that we had completed the audit of the financial statements of Allerdale Borough Council in accordance with the requirements of the Code of Audit Practice on 30 November 2020.



# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf. As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings:

- 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.
- Challenge the development of proposals for closing and identifying the budget gap in the MTFP, to ensure they are both realistic and deliverable.
- 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

## Overall Value for Money conclusion

We were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

The Council has had some major initiatives including the waste contract and the stadium that 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 panel concluded that an unqualified conclusion was 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 value for money.



# Value for Money conclusion- Value for Money Risks

Risks identified in our audit plan	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 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 costs of circa £0.9 million in relation to challenges associated with waste collection (see page 13). 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 12).</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 revised its 2020-21 budget to reflect the impact of Covid and 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 the 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 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 recommended 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 recommended that the Council continue to explore opportunities to close the current budgetary gap reflected in its MTFP.</p>

# Value for Money conclusion- Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
<p><b>Workington community stadium project</b></p> <p>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.</p> <p>We 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.</p>	<p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>- wider stakeholder engagement to ensure buy in. The report confirms, the leader has already instigated member wide engagement on key priorities;</li> <li>- 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</li> <li>- 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.</li> </ul> <p>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.</p>	<p>Our work indicated 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.</p> <p>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.</p> <p>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.</p> <p>We raised a recommendation in relation to ensuring key Scrutiny related recommendations are addressed and learning embedded into the Council's future arrangements.</p>

# Value for Money conclusion- Value for Money Risks

Risks identified in our audit plan	Findings	Conclusion
<p><b>Waste and recycling contract and procurement arrangements</b></p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>We raised a recommendation in relation to ensuring key recommendations are addressed and learning embedded into the Council's arrangements.</p>

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit.

## Reports issued

Report	Date issued
Audit Plan	May 2020
Audit Findings Report	November 2020
Annual Audit Letter	January 2021

## Fees

	Scale £	Actual fees £	2018/19 fees £
Statutory audit	37,059	58,718	44,559

## Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £37,059 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

There were no fees for the provision of non audit services.

Area	Reason	£
Raising the bar	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	2,500
Pensions	We increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.	1,750
PPE Valuation	We increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.	1,750
Value for Money Conclusion	The PSAA fee structure assumes a limited number of significant risk areas in the Value for Money conclusion work. The Council had more areas identified as significant risks and so additional fee is levied in order to carry out the work in the required areas of risk.	4,000
Welfare Benefit expenditure	The PSAA fee structure assumes the same auditing body will perform the statutory audit and the housing benefit certification. Since the housing benefit certification work is no longer provided by Grant Thornton the economies in testing the welfare benefit expenditure are lost, and so an additional fee is levied to make up the shortfall.	2,500
Covid 19	Fundamental to our audit response to COVID 19 was working with you to understand the arrangements the Authority has in place to address relevant risks in respect of Covid-19 in its accounts preparation. We also reviewed the appropriateness of your disclosures, including those in respect of any estimation uncertainties around for example PPE and Pensions asset valuations.	1,500
Per plan	As reported in our audit plan. This fee variation has been approved by PSAA.	<b>14,000</b>
Covid-19 overruns	This reflects the additional time it has taken us to deliver the 2019/2020 audit, in view of remote working arrangements and additional complexity brought by the pandemic to our VFM and accounts work. <b>This fee variation is subject to approval by PSAA.</b>	7,659



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