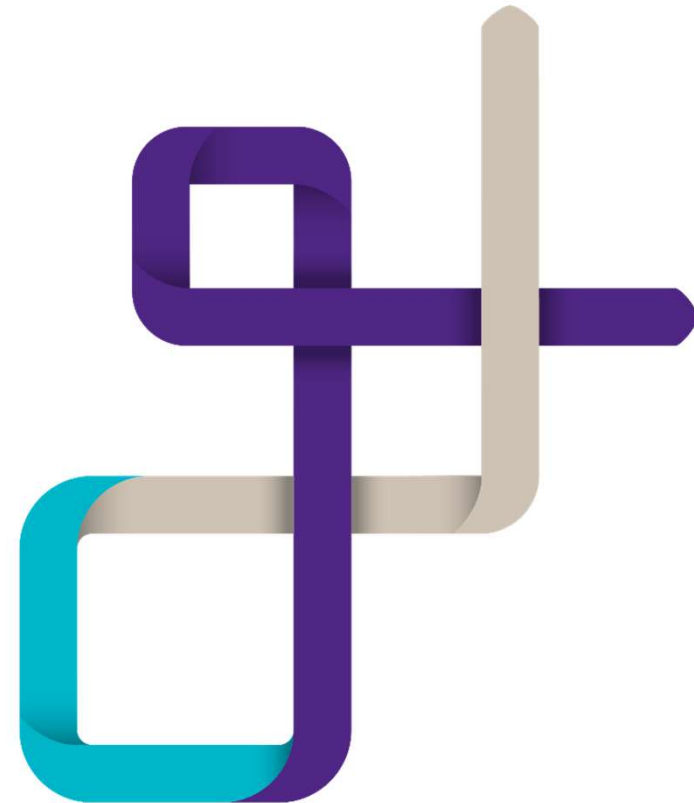


# Audit Findings

*Year ending 31 March 2018*

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Allerdale Borough Council  
16 July 2018



# Contents



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

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# Headlines

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

<b>Financial Statements</b>	<p>Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income 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>Our audit work was completed on site during June and July. Our findings are summarised on pages 19 to 20. During the audit the Council amended its legal provision to reflect the latest available information on the expected timing of payments. This was only a balance sheet adjustment and had no impact on the Statement of Comprehensive Income and Expenditure or the Council's overall financial position. Audit adjustments are detailed in Appendix A.</p> <p>Subject to the satisfactory completion of our audit work, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 27 July 2018, as detailed in Appendix C. These outstanding items include:</p> <ul style="list-style-type: none"><li>finalising our work on journals, financial instruments, provisions, operating expenditure and PPE revaluations;</li><li>receipt of management's representation letter;</li><li>updating our post balance sheet events review, to the date of signing the opinion; and</li><li>review of the final set of financial statements.</li></ul>
<b>Value for Money arrangements</b>	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:</p> <ul style="list-style-type: none"><li>the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')</li></ul>	<p>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.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C. Our findings are summarised on pages 14 to 16</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"><li>report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li><li>certify the closure of the audit</li></ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

# Summary

## Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

## Audit approach

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

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

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

## Conclusion

We have substantially completed our audit of your financial statements and subject to the satisfactory completion of our audit work, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 27 July 2018, as detailed in Appendix C. These outstanding items include:

- finalising our work on journals, financial instruments, provisions, operating expenditure and PPE revaluations;
- receipt of management's representation letter;
- updating our post balance sheet events review, to the date of signing the opinion; and
- review of the final set of financial statements.

## Our approach to materiality

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

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

	Group and Council Amount (£)
Materiality for the financial statements	£966,000 (1.75% of gross revenue expenditure)
Performance materiality	£724,500 (75% of overall materiality)
Trivial matters	£48,000 (5% of overall materiality)
Materiality for specific transactions, balances or disclosures	Senior officers remuneration - £12,291 (1.75% of senior officer expenditure)

# Significant audit risks

## Risks identified in our Audit Plan

## Commentary

1

### 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.

2

### Management override of controls

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.

We identified management override of controls as a risk requiring special audit consideration.

### We have:

- updated our understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness
- obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness
- evaluated the rationale for any changes in accounting policies or significant unusual transactions.

We have completed our walkthrough of the journals process and confirmed the completeness of the population from which to select journals. We are currently selecting the journals to test and will test them in the week commencing 16 July 2018.

# Significant audit risks (continued)

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of property, plant and equipment (PPE)</b> The Council revalues its land and buildings on a rolling basis over a five year period to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.</p>	<p><b>We have:</b></p> <ul style="list-style-type: none"> <li>• reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;</li> <li>• considered the competence, expertise and objectivity of any management experts used;</li> <li>• discussed with the valuer the basis on which the valuation is carried out and challenged the key assumptions;</li> <li>• reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding;</li> <li>• tested revaluations made during the year to ensure they are input correctly into the Council's asset register;</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.</li> </ul> <p>Our audit work confirmed that revaluations were carried out by an appropriate external expert. We are satisfied that the value of land and buildings not revalued during the year was not materially different to their reported value at 31 March 2018. We have agreed the revaluation of investment properties and are currently completing our detailed testing of revalued PPE assets.</p>
<p><b>4 Valuation of pension fund net liability</b> The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p><b>We have:</b></p> <ul style="list-style-type: none"> <li>• identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We have also assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement;</li> <li>• evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We have gained an understanding of the basis on which the valuation is carried out;</li> <li>• undertaken procedures to confirm the reasonableness of the actuarial assumptions made;</li> <li>• checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul> <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability. We are satisfied that the entries and disclosures in the Council's accounts for pension fund assets, liability and disclosures in notes are consistent with the actuarial report provided by Mercers.</p>

# Reasonably possible audit risks

## Risks identified in our Audit Plan

## Commentary

5

### Employee remuneration

Payroll expenditure represents a significant percentage of the Council's operating expenses.

As the payroll expenditure comes from a number of individual transactions and an interface with a sub-system there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

### We have:

- evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness;
- updated our understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls;
- tested the reconciliation of payroll expenditure to ensure the amount in the accounts can be reconciled to the general ledger and through to payroll reports. Investigated any significant adjusting items;
- agreed payroll related accruals (e.g. unpaid leave accrual) to supporting documents and reviewed any estimates for reasonableness;
- performed a monthly analytical review on payroll costs.

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

6

### Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

### We have:

- evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness;
- updated our an understanding of the Council's system for accounting for non-pay expenditure and evaluated the design of the associated controls;
- obtained a listing of non-pay payments made in April, taken a sample, and ensured that they have been charged to the appropriate year;
- reviewed the year-end accounts payable reconciliation, and investigated any significant reconciling items.

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

# 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).

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## Going concern commentary

## Auditor commentary

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### 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's use of the going the concern basis of accounting is appropriate;
- The Council's has provided us with its working paper for its assessment of going concern.

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### Work performed

We discussed the financial standing of the Council with the Head of Financial Services and reviewed management's assessment of going concern and the assumptions and supporting information.

- No material uncertainty identified.

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### Concluding comments

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

- Our opinion is unmodified in respect of the going concern conclusion.
-



# Significant matters discussed with management




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

	<b>Significant matter</b>	<b>Commentary</b>
1	Significant events or transactions that occurred during the year	No issues to report.
2	Business conditions affecting the group and Council and business plans and strategies that may affect the risks of material misstatement	No issues to report.
3	Concerns about management's consultations with other accountants on accounting or auditing matters	No issues to report.
4	Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	We were re-appointed as auditors of Allerdale Borough Council for five years from 2018/19. We issued our fee letters for 2018/19 on the 24 April 2018 and presented them to the Audit Committee on 7 June 2018.
5	Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	No issues to report.
6	Other matters that are significant to the oversight of the financial reporting process.	No issues to report.

# Significant findings arising from the group audit

Component	Work completed	Findings and Group audit impact
<b>Keswick Museum and Art Gallery Trust (KMAG)</b>	<ul style="list-style-type: none"><li>• Desktop review performed by Grant Thornton UK LLP.</li></ul>	<ul style="list-style-type: none"><li>• Our work to date has not identified any issues in respect of the risks on pages 5 to 7.</li></ul>
<b>Allerdale Investment Partnership (AIP)</b>	<ul style="list-style-type: none"><li>• Desktop review performed by Grant Thornton UK LLP.</li></ul>	<ul style="list-style-type: none"><li>• Our work to date has not identified any issues in respect of the risks on pages 5 to 7.</li></ul>
<b>Helena Thompson Museum</b>	<ul style="list-style-type: none"><li>• Desktop review performed by Grant Thornton UK LLP.</li></ul>	<ul style="list-style-type: none"><li>• Our work to date has not identified any issues in respect of the risks on pages 5 to 7.</li></ul>

# Accounting policies, estimates and judgements

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Revenue from the provision of services is recognised when the percentage completion of the transaction can be reliably measured and that it is probable that economic benefits or service potential associated with the transaction will flow.</li> <li>Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due when there is reasonable assurance of compliance with the conditions attached to the payments and the grants or contributions will be received. Amounts recognised as due are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied.</li> <li>Acting as an agent for council tax and NNDR on behalf of the major preceptors. Accounting for the Council share of these balances.</li> </ul>	Our review of the Council's accounting policies has not highlighted any issues which we wish to bring to your attention. Policies are in accordance with the requirements of the CIPFA Code of Practice.	 <b>GREEN</b>
<b>Judgements and estimates</b>	<ul style="list-style-type: none"> <li>Key estimates and judgements include: <ul style="list-style-type: none"> <li>– useful life of capital equipment</li> <li>– provisions (including bad debt provision)</li> <li>– pension liability</li> <li>– fair value measurement of investment properties</li> <li>– embedded leases</li> <li>– Investment properties</li> <li>– Consolidation of a controlled charitable organisations.</li> </ul> </li> </ul>	We have considered the Council's judgements and estimates against the requirements of the CIPFA Code of Practice.	 <b>GREEN</b>
<b>Other critical policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The accounting policies are appropriate and consistent with previous years.</li> </ul>	Our review of accounting policies for the Council has not highlighted any issues which we wish to bring to your attention.	 <b>GREEN</b>

## Assessment

 Marginal accounting policy which could potentially be open to challenge by regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

# Other communication requirements

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

Issue	Commentary
① <b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Committee. We have been made aware of one fraud but not aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
② <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.
③ <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.
④ <b>Written representations</b>	<p>A standard letter of representation has been requested from the Council, including one specific representations in respect of the Group. The draft letter of representation is included on the Audit Committee agenda.</p> <p>The specific representation was requested in terms of adequate arrangements being in place to enable the Council to obtain repayment of loan notes held in Allerdale Investment Partnership LLP out of the receipts of the partnership in accordance with the Members Agreement and loan instrument. No significant restrictions exist on the ability of the Council's joint venture to transfer funds to the Council to repay loans or advances made by the Council.</p>
⑤ <b>Confirmation requests from third parties</b>	We obtained direct confirmation from PWLB for loans and requested from management permission to send confirmation requests to the Council's bankers and those with whom it placed investments. This permission was granted and requests were sent. All of these requests were returned with positive confirmation.
⑥ <b>Disclosures</b>	Our review found no material omissions in the financial statements.
⑦ <b>Significant difficulties</b>	We did not identify any issues with accounts closedown, production of draft accounts or quality of the working papers.

# Other responsibilities under the Code

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

Issue	Commentary
<b>1 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 (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>No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix C.</p>
<b>2 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.</p>
<b>3 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>4 Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2017/18 audit of Allerdale Borough Council in the audit opinion, as detailed in Appendix C.</p>

# Value for Money

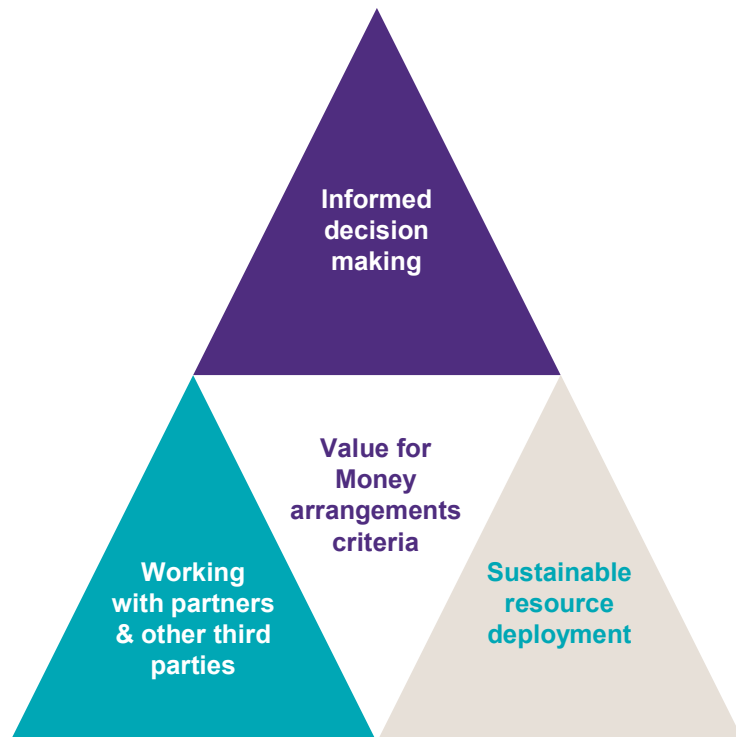
## Background to our VFM approach

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

The guidance identifies one single criterion for auditors to evaluate:

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

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



## Risk assessment

We carried out an initial risk assessment in January 2018 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 8 February 2018.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risk 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 robustness of the Medium Term Financial Plan (MTFP) and the reasonableness of the underlying assumptions;
- the in year budget monitoring arrangements.

We have set out more detail on the risk we identified, the results of the work we performed and the conclusions we drew from this work on the next page.

## Overall conclusion

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

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources.

The text of our report, which confirms this can be found at Appendix C.

## Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

## Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and our ongoing review of documents.

	Significant risk	Findings	Conclusion
1	<b>Financial sustainability</b>	<p>The Council continues to face financial challenges but the three year Medium Term Financial Plan (MTFP) 2018/19 to 2020/21 demonstrates its long term financial viability. Key planning assumptions cover both internal and external factors such as, Government funding, pay inflation, non-pay inflation and council tax increases. These assumptions appear reasonable, although for non-pay only contractual inflation is included in the budget with no other inflation included as a way of driving efficiencies. With inflation currently around 2.5%, and predicted to be around 2% until 2022, this will become increasingly challenging, although the Council is currently underspending. Overall, there is a sound process in place to produce the MTFP and update projections.</p> <p>The Council set the 2018/19 budget and Council tax requirement on 7 March 2018. This resulted in a balanced net revenue budget for 2018/19 of £14.6 million and a Council Tax increase of 3.19%. As part of the annual budget setting process, the Council's s151 officer provides an assessment of the adequacy of balances and reasonableness of assumptions and estimates used to produce the budget. The MTFP is reviewed on an ongoing basis with the updated MTFP formally reported to members in November 2017 and again in February 2018 as part of the annual Council tax setting process. The MTFP projections, reported in February 2018, for 2018/19 to 2020/21 showed a £2.645 million funding gap between 2019/20 and 2020/21. This is in addition to the Council's projected required delivery of self-sufficiency savings of £0.422 million in 2018/19.</p> <p>When setting the 2017/18 budget in March 2017 the Council identified the need to deliver savings of £1.217 million. The required savings are built into the revenue budget and regularly monitored through the normal budget monitoring process within the Council. Any issues identified are considered and corrective action taken, or alternative savings are identified. Given that the Council level of underspending in 2017/18 it is not unreasonable to assume that the required savings for 2017/18 have been delivered, although they may have been delivered in a slightly different way to that original planned.</p> <p>At the end of December 2017 (Quarter 3) the projected overall net revenue outturn position was an underspend of £0.540 million. The outturn position was an overall net expenditure underspend of £0.758 million. Therefore, a difference of only £0.218 million (around 1.2% movement) from that projected at December 2017. At December 2017 net expenditure on services was projecting a £0.071 million underspend although outturn showed a £0.566 million underspend a difference of £0.495 million (3.4%). This is a significantly reduced difference when compared to the movement between Quarter 3 and outturn in 2016/17.</p> <p>At the 31 March 2018 total available reserves were £8.72 million (GF balance of £4.92 million and Earmarked reserves of £3.80 million). When the 2018/19 budget was agreed on 7 March 2018 total reserves were estimated as £8.25 million (GF balance of £4.46 million and Earmarked reserves of £3.79 million) but at outturn were actually £8.72 million, an increase of £0.47 million. This reflected the underspending in year.</p>	<p><b>The Council has put in place robust arrangements to monitor and update its financial plans including the delivery of the required savings. Based on this we are able to conclude that the Council has in place proper arrangements for ensuring they plan finances effectively to support the sustainable delivery of strategic priorities and using appropriate cost information to support informed decision making.</b></p>



# Other statutory powers and duties

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

Issue	Commentary
<b>1</b> <b>Public Interest report</b> <b>Written recommendations</b> <b>Application to the court for unlawful item</b> <b>Advisory notice</b> <b>Application for judicial review</b>	We have not identified any other matters which would be require to be consider under our other statutory powers or duties.

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# Independence and ethics

## **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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix A.

## **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.

# 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.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
1 The Council has amended the split of the timing of its legal claim provision to reflect the latest available information. This has meant that legal claims provisions expected to be settled within one year (within current liabilities) have reduced from £478,000 to £248,000. A corresponding change has been made to legal claims provisions expected to be settled after one year (within long term liabilities) which have increased from £0 to £230,000. The actual balance reported on the balance sheet for provisions expected to be settled within one year was reduced from £1,246,000 to £1,016,000 and the 'after one year' total increased from £81,000 to £311,000.			
Current Liabilities - Provisions	0	(230)	0
Long term Liabilities - Provisions	0	230	0
Amendments have been made to single entity and group balance sheet. Note 29 on provisions has been updated to reflect this change and the commentary in the narrative report has also been updated.			
<b>Overall impact</b>	<b>£0</b>	<b>£0</b>	<b>£0</b>

## Misclassification and disclosure changes

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

Disclosure omission	Detail	Adjusted?
<b>Presentation and consistency</b>	A small number of minor changes have been made to the wording and presentation of disclosure notes throughout the Financial Statements to improve their clarity and consistency.	✓

# Audit Adjustments

## **Impact of unadjusted misstatements**

There are no such unadjusted items as a result of our audit

## **Impact of prior year unadjusted misstatements**

There were no unadjusted misstatements in the 2016/17 financial statements.

# Fees

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

## Audit Fees

	Proposed fee	Final fee
Council Audit	£48,128	£48,128
Grant Certification	£14,916	To be confirmed
<b>Total audit fees (excluding VAT)</b>	<b>£63,044</b>	<b>To be confirmed</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. The fee included for grant certification is currently an estimate, as we have still to undertake his work.

## Non Audit Fees

We confirm that no non-audit or audited related services have been undertaken for the Council.

# 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 (the 'group') for the year ended 31 March 2018 which comprise, the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, 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 2017/18.

In our opinion the financial statements:

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

#### Basis for opinion

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

## Who we are reporting to

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

## Conclusions relating to going concern

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

- the Head of Financial Service's 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.

## 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 set out on pages 1 to 157, the Narrative Report, the Annual Governance Statement, other than the group and Authority 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 course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Other information we are required to report on by exception under the Code of Audit Practice**

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

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice**

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

### **Matters on which we are required to report by exception**

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

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

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

### **Responsibilities of the Authority, the 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 21, 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 2017/18, which 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 the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit Committee is Those Charged with Governance.

### **Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](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 November 2017, 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 2018.

#### **Responsibilities of the Authority**

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

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

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

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

### **Report on other legal and regulatory requirements - Certificate**

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

*To be signed*

John Farrar  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square  
Spinningfields  
Manchester  
M3 3EB

*To be dated*





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