



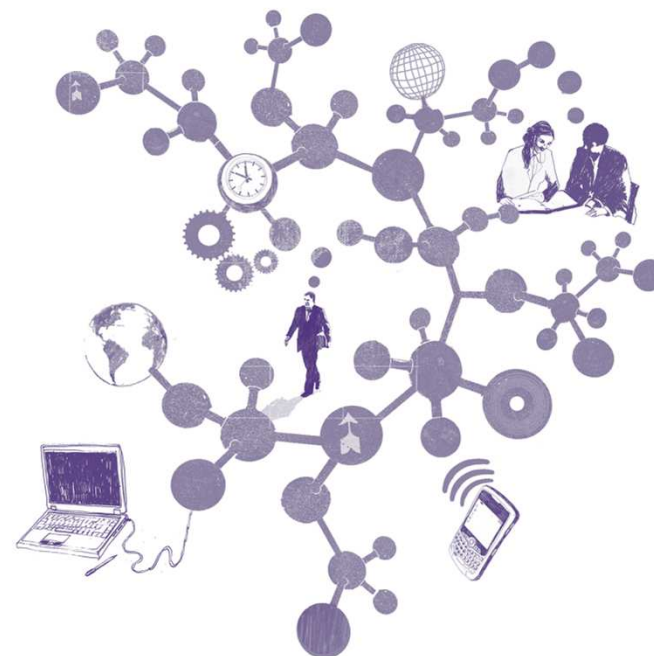
The Annual Audit Letter for Cumbria County Council

Year ended 31 March 2013

October 2013

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Section 1: Executive summary

01. Executive summary

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Executive summary

Purpose of this Letter

Our Annual Audit Letter ('Letter') summarises the key findings arising from the following work that we have carried out at Cumbria County Council ('the Council') for the year ended 31 March 2013:

- auditing the 2012/13 accounts and Whole of Government Accounts submission (Section Two); and
- assessing the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (Section Three).

The Letter is intended to communicate key messages to the Council and external stakeholders, including members of the public. We reported the detailed findings from our audit work to those charged with governance, the Audit and Assurance Committee in the Audit Findings Report on 25 September 2013.

Responsibilities of the external auditors and the Council

This Letter has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

The Council is responsible for preparing and publishing its accounts, accompanied by an Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money).

Our annual work programme, which includes nationally prescribed and locally determined work, has been undertaken in accordance with the Audit Plan that we issued on 20 May 2013 and was conducted in accordance with the Audit Commission's Code of Audit Practice ('the Code'), International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission

Audit conclusions

The audit conclusions which we have provided in relation to 2012/13 are as follows:

- an unqualified opinion on the financial statements, including Cumbria Local Government Pension Scheme and the group accounts, which give a true and fair view of the financial position as at 31 March 2013 and its income and expenditure for the year;
- an "except for" qualified VFM conclusion in respect of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources, in relation to the arrangements for the protection of children in Cumbria; and
- an unqualified opinion on the Council's Whole of Government Accounts submission.

Work is on-going on the Teachers' Pensions return, which has an end of November 2013 audit certification deadline.

Key areas for Council attention

We summarise here the key messages arising from our audit for the Council to consider as well as highlighting key issues facing the Council in the future.

Key messages

We gave an unqualified opinion on the financial statements with no material errors identified. We are pleased to report the Council has achieved a high quality standard of financial reporting for 2012/13 in terms of compliance with the CIPFA Code of Practice. This reflects significant improvement on previous years' audits.

We considered the impact of the "Inadequate" Children Protection regulator's inspections in May 2012 and May 2013 and as a result we issued an "except for" modified VFM conclusion qualification.

We were satisfied that in all other significant respects, Cumbria County Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2013 against the criteria published by the Audit Commission in November 2012.

Executive summary continued

Key issues and areas for improvement

- Our work on financial resilience highlighted that, the Council has adequate systems and processes in place to manage financial risks effectively, and to secure a stable financial position, that enables it to continue to operate for the foreseeable future.
- On financial governance regular financial resilience reviews are needed to maintain appropriate levels of reserves and monitor the Council's liquidity, which is critical in the current financial climate. There is scope to improve the delivery of approved capital programmes and to ensure robust assessments are carried out on the impact slippages have on service standards and delivery, especially on Council priority areas. In addition, the Council needs to review sickness absence management arrangements and reporting and take action to reduce the recent increasing trend in staff sickness days.
- We acknowledge the Council has made good recent progress on its consultation on the Council Plan priorities and has also set out comprehensive Budget Propositions outlining £40m of potential savings. The Council recognises the importance of regular on-going open engagement with all the Council's stakeholders, which is needed in the context of the significant £80m saving plans projected over the next 3 years up to 2016/17.
- Internally it is essential the planned roll out of training for budget holders covers the enhanced skills and experience required, in the context of the significant financial challenges it faces. The Central Finance Team have a key role in facilitating the changes required to deliver on the required savings plan.
- On financial control, there is scope for the Council to embed the opportunities and upside of risks in the Council's wider risk management arrangements to allow members and officers to see the totality of risk and support innovative and different service delivery. This can be reinforced by developing a structured approach to considering opportunities to exploit, in terms of upside of risk as well as downside risks when considering budget financial risks as part of the Council's wider financial planning.
- As part of the lessons learnt from the Eden Recycling case there is a need to revisit the Council's risk escalation arrangements between directorate to corporate level to ensure risks are managed at the appropriate level.
- The assurance gathering arrangements to support the Annual Governance Statement and the Council's wider control environment needs to be explicitly aligned to the 21 elements of good governance now prescribed by CIPFA.
- The Council is taking appropriate steps in terms of additional financial resources and leadership capacity to improve the arrangements for the protection of children in Cumbria. Management does recognise that there remains some variability of practice within Child Protection and Safeguarding Service provision. There is clear evidence of improvements in working practice but this is yet to work through to sustained improved performance across a number of key indicators. The Council acknowledges that these improvements need to be sustained to provide higher service standards and to avoid any direct government intervention.
- Delivering Connecting Cumbria is a key priority for the Council supporting its economic ambitions. The Council needs to deploy highly effective and innovative project management to co-ordinate delivery of this major project, which is scheduled to be completed in a relative short timeframe.
- We are satisfied that the Council is dedicating sufficient senior management and specialist professionals and staff input to come to a resolution on a disputed contract settlement. This remains as a significant issue for the Council to manage but we are satisfied from a VfM perspective that the Council is managing the related financial risks up to this stage.

Acknowledgements

This Letter has been agreed with the Chief Executive and Assistant Director (Finance) (Section 151 Officer). It will be presented to the next Audit and Assurance Committee on 9th December 2013. We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP October 2013

Section 2: *Audit of the accounts*

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Audit of the accounts

Audit of the accounts

The key findings of our audit of the accounts are summarised below:

Preparation of the accounts

We received the draft financial statements for the Council and Cumbria Local Government Pension Scheme and accompanying high quality working papers at the start of our audit, in accordance with the agreed timetable. The financial statements have been produced to a high quality standard of compliance with the CIPFA Code. Our regular finance update meetings and open dialogue together with prompt responses to our queries has ensured the smooth running of the audit.

Issues arising from the audit of the accounts

We have not identified any errors requiring adjustment or affecting the Council's reported financial or balance sheet positions. The Council has made significant improvements in its financial reporting, which is a reflection of the additional financial expertise, capacity, quality control and learning from previous audits.

We recommended and the Council made three significant non trivial adjustments to improve the presentation of the financial statements. These key changes related to:

- Note 4 Segmental analysis – a late adjustment of £8.989m was omitted from the totals in the Council's accounts due to an incorrect calculation. The adjustment had been omitted completely from the Group Accounts.
- Note 32 Financial instruments - £6.114m error due to the incorrect inclusion of prepayments and £4.003m due to the incorrect inclusion of payments in advance. Comparator notes were also amended.
- the Cash Flow Statement was incorrect in the breakdown of the figures by £2.914m, however we acknowledge the working papers were correct and the Cash Flow Statement submitted to audit was not the final version.

The Council did amend the accounts for these and other minor audit identified errors. None of the changes impacted on the Council's general fund balance or balance sheet position.

We completed our work in respect of the Whole of Government Accounts return in accordance with the national timetable and we were able to issue an unqualified opinion on 27 September, with some amendments to the return.

Annual governance statement

The Annual Governance Statement (AGS) required some changes to ensure full compliance with the guidance issued by CIPFA in December 2012 on Delivering good governance in Local Government Framework.

We reviewed the Council's final revised post audit Annual Governance Statement and confirmed it was compliant with the relevant guidance and consistent with our knowledge of the governance arrangements in place.

Conclusion

Prior to giving our opinion on the accounts, we are required to report significant matters arising from the audit to 'those charged with governance', defined as the Audit and Assurance Committee at the Council. We presented our report to the Audit and Assurance Committee on 25 September 2013 and summarise only the key messages in this Letter.

We issued an unqualified opinion on the Council's 2012/13 financial statements including the sections relating to Cumbria Local Government Pension Scheme and the Group Accounts on 27 September 2013, in advance of the 30 September 2013 publication deadline set by the Department for Communities and Local Government.

Our opinion confirms that the accounts give a true and fair view of the Council's financial position and of the income and expenditure recorded.

Section 3: Value for Money

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Value for Money

Scope of work

The Code describes the Council's responsibilities to put in place proper arrangements to:

- secure economy, efficiency and effectiveness in its use of resources
- ensure proper stewardship and governance
- review regularly the adequacy and effectiveness of these arrangements.

We are required to give a VfM conclusion based on the following two criteria specified by the Audit Commission, which support our reporting responsibilities under the Code:

The Council has proper arrangements in place for securing financial resilience. The Council has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

The Council has proper arrangements for challenging how it secures economy, efficiency and effectiveness. The Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

Key findings

Securing financial resilience

We have undertaken a review which considered the Council's arrangements against the three expected characteristics of proper arrangements as defined by the Audit Commission:

- financial governance
- financial planning
- financial control.

Overall, our work highlighted the Council has adequate systems and processes in place to manage financial risks effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.

Our review of key financial resilience indicators shows that the Council is in the mid-range against its benchmarked comparator authorities. The Council faces significant financial challenges of needing to secure £80m of savings over the next 3 years up to 2016/17 of which £24m is needed in 2014/15. The Council is responding to this challenge and is setting a robust Medium Term Financial Plan, which focuses resources on Council priorities. The current Budget Proposition out to consultation in October 2013 is aimed at addressing £40m of these savings.

On financial governance regular financial resilience reviews are needed to maintain appropriate levels of reserves and monitor the Council's liquidity, which is critical in the current financial climate. There is scope to improve the delivery of approved capital programmes and to ensure robust assessments are carried out on the impact slippages have on service standards and delivery, especially on Council priority areas. In addition, the Council needs to review sickness absence management arrangements and reporting to reduce the recent increasing trend in staff sickness days.

The current on-going open engagement with all the Council's stakeholders is needed in the context of the significant saving plans projected over the coming years. This could be supported by linking public reporting of performance against corporate objectives with future financial challenge consultation. Internally, it is essential the planned roll out of training for budget holders covers the enhanced skills and experience required, in the context of the significant financial challenges facing the .

On financial control, there is scope for the Council to embed the opportunities and upside of risks in the Council's wider risk management arrangements to allow members and officers to see the totality of risk and support innovative and different service delivery. This can be reinforced by developing a structured approach to considering opportunities to exploit, in terms of upside of risk as well as downside risks when considering budget financial risks as part of the Council's wider financial planning. As part of the lessons learnt from the Eden Recycling case there is a need to revisit the Council's risk escalation arrangements from directorate to corporate level to ensure risks are managed at the appropriate level.

The details of our findings can be found in our separate report 'Review of the Council's arrangements for securing financial resilience for Cumbria County Council' issued in September 2013.

Value for Money continued

Challenging economy, efficiency and effectiveness (3 E's)

We have reviewed whether the Council has prioritised its resources to take account of the tighter constraints it is required to operate within and whether it has achieved cost reductions and improved productivity and efficiencies.

Our VfM work highlighted that, the Council has prioritised its resources to take account of the tighter constraints it is required to operate within. The Council's well established Budget Strategy and Medium Term Financial Plan is designed to improve financial governance within the Council and to modernise how it delivers services.

We have also reviewed three specific areas as part of our 3 E's VfM work as outlined below:

VfM around Child Protection and safeguarding services

In May 2013 an Ofsted inspection on protection of children under Cumbria County Council's care assessed all of the areas covered by the inspection as inadequate, as follows:

- Overall effectiveness;
- The effectiveness of the help and protection provided to children, young people, families and carers;
- The quality of practice; and
- Leadership and governance arrangements.

We have discussed with management the actions that the Council is taking to address the issues raised in the Ofsted report and reviewed trends in key performance indicators. We are satisfied that management is taking appropriate action to provide additional financial resources and leadership capacity to improve the arrangements for the protection of children in Cumbria but there is not yet sustained improvement in some areas as shown in key performance indicators. Management does recognise that there remains some variability of practice within Child Protection and Safeguarding.

Delivering the BDUK Connecting Cumbria project

There have been national delays in securing the final approval on the funding of this circa £60m project, which has required the Council to re-profile its Capital Programme over 2013 to 2015. Delivering Connecting Cumbria is a key priority for the Council supporting its economic ambitions. The Council needs to deploy highly effective and innovative project management to co-ordinate delivery of this major project, which is scheduled to be completed in a relatively short timeframe.

Contract monitoring arrangements and disputed claims

We are satisfied that the Council is dedicating sufficient senior management and specialist professionals and staff input to come to a resolution on a disputed contract settlement. This remains as a significant issue for the Council to manage but we are satisfied from a VfM perspective that the Council is managing the related financial risks up to this stage.

Overall VfM conclusion

On the basis of our work, and having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that in most 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 2013, with the exception of the arrangements for the protection and safeguarding of children in Cumbria.

Section 4: Certification of grant claims and returns

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Certification of Teachers' Pensions return

Summary of progress to date

We are required to certify only one return submitted by the Council. This certification of the Teachers' Pensions takes place up to some seven months after the return period and represents a final but important part of the process to confirm the Council's entitlement to funding.

Our work on certification of the Teachers' Pensions grant return is on-going and the completion deadline is 29th November 2013. The detailed findings of our certification work and final grant certification fee, will be reported to the Audit and Assurance Committee in our 2012/13 Annual Certification Report.

Appendices

Appendix A: Reports issued and fees

We confirm below the fee charged for the Cumbria County Council audit is the same as agreed at the planning stage with no variation. We have agreed a small variation of £2,040 in audit fees for Cumbria Local Government Pension Scheme to cover additional work on IAS19 work.

We have also charged £20,000 fees for the provision of non audit services in relation to a Strategic Internal Audit Review.

Fees

	Per Audit plan £	Actual fees £
Audit Fee	152,820	152,820
Grant certification fee	4,800	4,800
Total Cumbria County Council fees	157,620	157,620
Cumbria LGPS fees	24,620	26,660

There is no variation in actual fee against the planned fee for the 2012/13 audit, with exception of £2,040 variation for the additional audit procedures required on IAS 19 pension disclosures for scheduled bodies. Note the certification work is on-going. The final fee will be reported to the Audit and Assurance Committee at a later date in our 2012/13 Annual Certification Report.

Reports issued

Report	Date issued
Audit Plan	June 2013
Audit Findings Report	September 2013
VfM – Financial Resilience Report	September 2013
Annual Audit Letter	October 2013
Certification report	Plan to issue in December 2013

Fees for other services

Service	Fees £
Strategic Internal Audit Service Review	20,000

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors on this advisory work, that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on this Strategic Internal Audit Service Review.

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



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