

# The Audit Findings for Cumbria County Council

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**Year ended 31 March 2014**

**September 2014**

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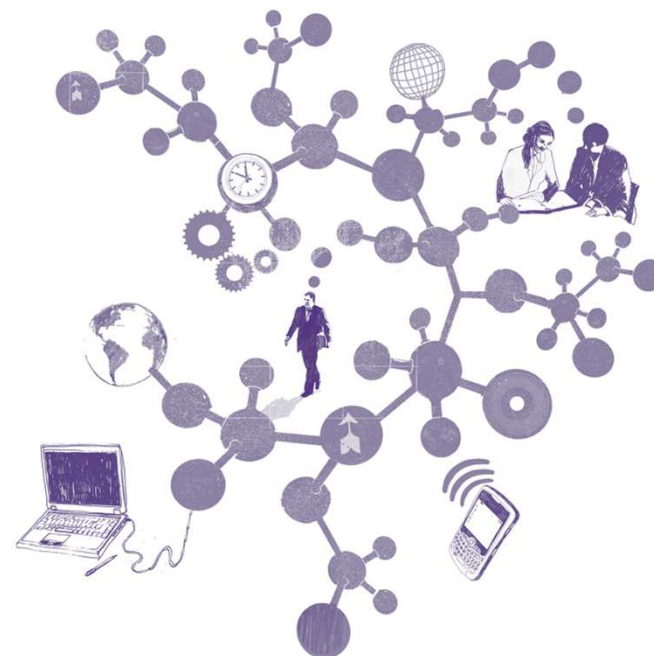
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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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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## Section 1: Executive summary

### 01. Executive summary

### 02. Audit findings

### 03. Value for Money

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### 05. Communication of audit matters

We plan to give an unmodified opinion on the financial statements with no material errors identified. We are pleased to report the Council has again achieved a high quality standard of financial reporting for 2013/14 in terms of compliance with the CIPFA Code of Practice.

We have considered the ongoing impact of the "Inadequate" Children Protection regulator's inspections, published in May 2012 and June 2013, and as a result we are planning to issue an "except for" modified VFM conclusion qualification.

We have compared the Council's arrangements for securing value for money with the guidance on the specified criteria published by the Audit Commission in November 2012. With the exception of the matter reported on Children Protection, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

# Executive summary

## Purpose of this report

This report highlights the key matters arising from our audit of Cumbria County Council's ('the Council') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing 260 (ISA).

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Council's financial statements present a true and fair view of the financial position, its expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. We are also required to reach a formal conclusion on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources (the Value for Money conclusion).

## Introduction

In the conduct of our audit we have identified one area of change in our planned audit approach, which we initially communicated to you in our Audit Plan dated 11 March 2014. Our approach to the group account audit is an 'analytical' response and not 'targeted' as originally notified. This change in audit approach is a combination of it now being post year end with more certainty that individual components (each of the subsidiaries) are not material and technical clarification that we do not have to aggregate the components in our materiality assessment.

Our audit is substantially complete although we are finalising our work in the following areas:

- Whole Government Accounts;
- review of the final version of the financial statements;

- obtaining and reviewing the final management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying good standard working papers at the start of our audit, in accordance with the agreed timetable.

## Key issues arising from our audit

### Financial statements opinion

We anticipate providing an unqualified opinion on the financial statements. We have identified no material adjustments or other adjustments affecting the Council's reported financial position.

There are three audit adjustments that the Council has made, which although not affecting the primary statements are significant in value terms. These are all in the single entity disclosure notes. A further two corrected adjustments we have identified are within the group disclosure notes only, which are shown on page 15 and 16.

There are also a number of minor adjustment changes to the accounting policies and notes, to improve clarity and the presentation of the financial statements that are not separately reported.

In addition, there are 2 non trivial errors, affecting cash and creditors year end balances and the cash flow 2012/13 figures that officers are not adjusting and these are shown in the unadjusted errors section of this report on page 17.

The key messages arising from our audit of the Council's financial statements are:

- the Council has again achieved a high quality standard of financial reporting for 2013/14 in terms of compliance with the CIPFA Code of Practice
- there was a transposition error in Note 32.1 Financial Instruments for £72m as the financial liabilities at amortised cost were reported as £380.413m but should have been £308.413m.

- the 5-10 year category in the maturity profile of debt within Note 33 was overstated by £6.7m and the over 10 year category understated by the same amount
- the related parties Note 43 was understated by £2.8m. This was due to commercial payments to Orian being omitted for cheque book schools and some of the Council payments.

Further details are set out in section 2 of this report.

### **Annual Governance Statement (AGS)**

The assurance gathering arrangements at both the Corporate and directorate levels are very effective and support the AGS disclosures. Corporate Governance Group and directorate workshops are excellent developments in the Council's assurance gathering arrangements. The AGS was produced in line with CIPFA's 21 key criteria and two omissions on the recent secondary school Ofsted inspections, reference to the Pension Scheme arrangements including the Pension Committee and data quality arrangements have been included in the final AGS.

### **Value for Money conclusion**

We have considered the impact of the "Inadequate" Children Protection regulator inspections as reported in May 2012 and June 2013, on our VfM conclusion. We have submitted up to date evidence to our internal moderation panel to ensure a consistent approach across all authorities. The panel supports an "except for " modified VfM conclusion qualification on this children protection issue.

We have compared the Council's arrangements for securing value for money with the guidance on the specified criteria published by the Audit Commission in November 2012. With the exception of the matter reported on Children Protection, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

Further detail of our work on Value for Money is set out in section 3 of this report.

### **Whole of Government Accounts (WGA)**

We will complete our work in respect of the Whole of Government Accounts in accordance with the national timetable.

### **Controls**

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control

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 any control weaknesses, we report these to the Council.

Our work has not identified any control weaknesses which we wish to highlight for your attention, with the exception of the arrangement for the authorisation of journals. We acknowledge that, the Council has compensatory controls in place to mitigate this risk.

### **The way forward**

Matters arising from the financial statements audit and review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the Chief Executive and Assistant Director - Finance.

We have made 4 recommendation, which are set out in the action plan in Appendix A. These have been discussed and agreed with the Chief Executive and Assistant Director - Finance.

### **Acknowledgment**

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

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## Section 2: Audit findings

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We have not identified any errors affecting the Council's reported financial or balance sheet positions. There are 5 non trivial errors, 3 of which management has amended, but none of these affect the Council's reserves or overall financial position.

The 3 non trivial adjustments have been made to improve the presentation of the financial statement disclosures on Financial Instruments and Related Parties.

# Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Audit and Assurance Committee on 11 March 2014. We also set out the adjustments and unadjusted errors within the financial statements arising from our audit work and our findings in respect of internal controls.

## **Changes to Audit Plan**

We have not made any changes to our Audit Plan as previously communicated to you on 11 March 2014, with exception of analytical as opposed targeted level of response required under ISA 600 group audit for Cumbria County Holdings Limited.

## **Audit opinion**

We anticipate that we will provide the Council with an unqualified opinion on the financial statements including the section relating to Cumbria Local Government Pension Scheme. We plan to issue an "except for " modified VFM conclusion qualification, as a result of the "inadequate" assessment of the arrangements for the protection of children in Cumbria by the Ofsted and Care Quality Commission inspection in May 2012 and the service specific Ofsted Inspection in May 2013.

Our audit opinions for Cumbria County Council and that relating to Cumbria Local Government Pension Scheme are set out in Appendix B.

# Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks, items 1 and 2 below, which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<b>Improper revenue recognition</b> Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	<ul style="list-style-type: none"> <li>Reviewed and tested revenue recognition policies</li> <li>Tested material revenue streams</li> <li>Reviewed unusual significant transactions.</li> </ul>	Our audit work has not identified any issues in respect of revenue recognition.
2.	<b>Management override of controls</b> Under ISA 240 there is a presumed risk of management over-ride of controls	<ul style="list-style-type: none"> <li>Reviewed accounting estimates, judgements and decisions made by management</li> <li>Liaised with officers to obtain a part year download to allow early testing of journal entries</li> <li>Tested year end journal entries</li> <li>Reviewed unusual significant transactions.</li> </ul>	<p>Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues, with the exception of direct journal authorisation.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>
3.	<b>Material contractual dispute</b> There is the risk of a material misstatement in the accounts given the current uncertainty on arriving at a reasonable estimate on the final resolution of a material contractual dispute	<ul style="list-style-type: none"> <li>Reviewed the Council's compliance with IAS 37 Provisions, contingent liabilities and contingent assets</li> <li>On-going discussion with the Council to determine correct accounting treatment in the accounts up to the date of opinion being issued.</li> </ul>	<p>Our audit work has considered the on-going position with regard to this contractual dispute and the associated accounting implications for the Council's 2013-14 financial statements. We have reviewed in detail the latest position on the dispute up to the date of signing the opinion in late September 2014.</p> <p>We are satisfied the Council has fully considered the accounting implications under IAS37 and the wording included in the contingent liability note is sufficient and reflects the latest position.</p>

## Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<b>Operating expenses</b>	Creditors understated or not recorded in the correct period	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>a walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>tested key controls</li> <li>Substantively tested at final accounts and reviewed significant items</li> <li>Cut off testing</li> <li>Creditor control account reconciliation testing</li> <li>Understood the accruals process and tested significant items.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.
<b>Employee remuneration</b>	Employee remuneration accrual understated	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and key controls over the transaction cycle</li> <li>a walkthrough of the key controls to assess the whether those controls are designed effectively</li> <li>tested key controls</li> <li>Completeness testing of the payroll feeder postings to the general ledger</li> <li>Cut off testing</li> <li>Payroll control account reconciliation testing</li> <li>Substantively tested year end accruals.</li> </ul>	Our audit work has not identified any significant issues in relation to the risk identified.

## Audit findings against other risks - continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Property, plant & equipment	<p>Revaluation measurement not correct</p> <p>PPE activity not valid</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• reconciliation of the fixed asset register and the property register valuations and the accounting treatment adopted</li> <li>• reviewed the PFI operating models and related accounting, together with the basis of related valuations and disclosure notes</li> <li>• Tested significant additions, disposals and reclassifications</li> <li>• Reviewed depreciation and componentisation policies and accounting entries</li> <li>• Reviewed leases disclosures and accounting</li> <li>• Tested capital financing transactions.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p> <p>The work on judgements and estimates has reviewed the valuation processes of 'classes of assets' and the matters arising from this are noted in that section of the report.</p>

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## Group audit scope and risk assessment

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.



Component	Significant?	Level of response required under ISA 600	Risks identified	Work completed	Assurance gained & issues raised
Cumbria County Holdings Limited	No	Analytical	N/A	Desktop review performed by GT UK including analytical review, understanding and testing of consolidation adjustments.	Our audit work has not identified any issues in respect of the consolidation of the Group accounts. Two transposition errors were noted in the Group Accounts and these are included in the adjusted misstatements section of this report, number 4 and 5 on page 16.

# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Revenue recognition</b>	<ul style="list-style-type: none"> <li>Recognised when the Council transfers the significant risks and rewards of ownership to the purchaser.</li> <li>Revenue from the provision of services is recognised when the Council can measure reliably the percentage completion of the transaction.</li> </ul>	Our review of revenue recognition policies has not highlighted any issues which we wish to bring to your attention.	 <b>Green</b>
<b>Judgements and estimates</b>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> <li>useful life of capital equipment</li> <li>PFI transactions</li> <li>pension fund valuations and settlements</li> <li>Revaluations</li> <li>Impairments</li> <li>Provisions</li> <li>accounting for schools</li> <li>Accounting for NNDR appeals</li> </ul>	<p>Our review of judgements and estimates has not highlighted any issues which we wish to bring to your attention, with the exception of accounting for year end cheque book school cash and creditor balances.</p> <p>The next section of the report details the work on PPE related estimates in more detail.</p>	 <b>Green</b>



## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient



-  Accounting policy appropriate but scope for improved disclosure


# Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<b>Judgements and estimates - PPE</b>	<ul style="list-style-type: none"> <li>Note 23.6 of the accounts sets out the authority's rolling programme of revaluations. This shows that the date of valuations vary between 2009/10 and 2013/14. This approach is similar to many other authorities and we are satisfied that the carrying amount of Property, Plant and Equipment (based on these valuations) does not differ materially from the fair value at 31 March 2014. In our view, however, this rolling programme does not meet the Code's requirement in paragraph 4.1.2.35 to value items within a class of property, plant and equipment simultaneously.</li> <li>This paragraph of the Code, which is based on IAS 16 Property, Plant and Equipment, does permit a class of assets to be revalued on a rolling basis provided that: <ul style="list-style-type: none"> <li>the revaluation of the class of assets is completed within a 'short period'</li> <li>the revaluations are kept up to date.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>In our view, however, we would normally expect this 'short period' for each class of asset, to be within a single financial year. This is because the purpose of simultaneous valuations is to 'avoid reporting a mixture of costs and values as at different dates'. This purpose is not met where a revaluation programme for a class of assets straddles more than one financial year.</li> <li>We acknowledge that the Council has arrangements in place to assure itself that using the five year rolling programme of valuations for each class of property, plant and equipment, still ensures that overall the carrying value of its assets are not materially different from the fair value as at 31 March 2014.</li> </ul>	 <b>Amber</b>
<b>Other accounting policies</b>	<ul style="list-style-type: none"> <li>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</li> </ul>	<ul style="list-style-type: none"> <li>Our review of accounting policies has not highlighted any significant issues which we wish to bring to your attention.</li> <li>A detailed technical review did result in the Council adding in additional accounting policy notes for council tax and business rates, and also for acquired operations.</li> </ul>	 <b>Green</b>

## Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

## Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

There are no adjusted misstatements that impact on the primary statements and the reported financial position.

## Misclassifications and disclosure changes

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

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	72,000	Note 32.1 Financial Instruments - Long Term Financial Instruments	<p>A transposition error of £72m occurred. The balance for long term borrowing financial liabilities at amortised cost should have been £308,413k, and not £380,413k.</p> <p>Note this change does not impact on the balance sheet as this is a memorandum disclosure note only.</p>
2 Misclassification	6,700	Note 33 Nature and Extent of Risks Arising From Financial Instruments – Liquidity Risk	<p>An error occurred in the mix of the debt maturity for the Public Works Loan Board (PWL) loans. The 5 to 10 years category was understated by £6,700k and the over 10 years category was overstated by £6,700k. The total of the maturity disclosure note was correct.</p>
	7,500		<p>In addition, for consistency, the financial instruments disclosure for the maturity profile was amended to add the £7.5m short term borrowing into it as it only showed long term borrowing.</p> <p>Note these changes do not impact on the balance sheet as this is a memorandum disclosure note only.</p>

## Misclassifications and disclosure changes - continued

Adjustment type	Value £'000	Account balance	Impact on the financial statements
3 Misclassification	2,798	Note 43 – Related Party Payments - Commercial Transactions Orian Solutions Limited	The note was understated by £2,798k. An error occurred in the related parties note as the payments to Orian Solutions Limited did not include all of the Council payments made, and the cheque book schools payments had also been omitted. The amendment is to add £880k into the grants line for Orian and to add £1,918k into the commercial transactions line for Orian. This does not impact on the primary statements as this is a memorandum disclosure note only.
4 Disclosure	n/a	Note 45 - Contingent Liabilities	A disclosure was added into the Contingent Liabilities note for Business Rate appeals.
5 Disclosure	n/a	Note 7.10.1 Group Movement in Reserves Statement (MIRS) 2013/14	There was an error in the disclosure of this note as an extra line was added in the group MIRS for 'balance of receipts received and used'. As a result of this extra line, all of the disclosure from that point onwards are one line out in terms of comparability to the single entity financial statements.
6 Disclosure	n/a	Note 7.11.2 Group Segmental Reporting 2012/13	There was an error in the disclosure of this note as an extra line was added in the note for 'employee leave accrual'. As a result of this extra line, all of the disclosure from that point onwards are one line out in terms of comparability to the single entity financial statements.
7 Disclosure	n/a	Annual Governance Statement	The draft AGS was produced to a good standard in line with CIPFA's 21 key criteria but it did have some omissions which the Council has addressed in a redraft, including reference to: <ul style="list-style-type: none"> <li>the 17 Secondary School Ofsted Inspections as reported in February 2014</li> <li>how the Council ensures effective data quality arrangements are in place to support decision making</li> <li>the Pension scheme governance arrangements and the Pensions Committee.</li> </ul>

## Unadjusted misstatements

The table below provides details of adjustments identified which we request be processed but which have not been made within the final set of financial statements. The Audit and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below:


Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Cash Flow Statement £'000	Reason for not adjusting
<p>1 Cheque book schools are subject to mid monthly closure in March, therefore creditors to 31 March are estimated, including the March payroll. As the payroll is actually paid by 31 March, this means that both creditors and cash are overstated in the Council's balance sheet. The value of the overstatement for 2013-14 is £5,374k and for 2012-13 is it £ 5,393k.</p> <p>There is no overall impact on the net asset position as a result of this issue.</p>	Nil	<p><b><u>2013-14</u></b> 5,374 DR (5,374) CR</p> <p><b><u>2012-13</u></b> 5,393 DR (5,393) CR</p>	<p><b><u>2013-14</u></b> 5,374 DR (5,374) CR</p> <p><b><u>2012-13</u></b> 5,393 DR (5,393) CR</p>	The Council has decided not to amend as there is no overall impact on the net asset position as a result of this issue.
<p>2 Following a review of the cash flow 2013/14 working papers the Council identified an error in the standard toolkit used by the majority of local authorities. The 2013-14 cash flow statement is correct. However the working paper used to prepare the 2012-13 cash flow statement did not reflect this error and hence incorrectly had reference to the 'collection fund adjustment account' as a valid cash flow when it should not have been. The error in the 2012-13 cash flow statement changes the mix by £1,079k.</p>	Nil		<p><b><u>2012-13</u></b> 1,079 DR (1,079) CR</p>	The Council has decided not to amend as it is not material to warrant a prior period adjustment and there is no overall impact on the cash flow position for 2012/13.
<b>Overall impact</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	

# Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded is of sufficient importance to merit being reported to you in accordance with auditing standards.

This and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.		<b>Journal Entry Controls</b> <ul style="list-style-type: none"> <li>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses, with the exception of the lack of journal authorisation controls, which may adversely impact on the Council's control environment or financial statements.</li> <li>We have not identified any issues to date from our journals testing with the exception of the journal authorisation issue as journals are not authorised.</li> <li>The Council is satisfied that other compensatory controls are in place to cover the lack of authorisation controls, such as e5 journal restrictions to finance staff and internal audit checks.</li> <li>From an audit perspective we still expect some form of journal authorisation in place even if it is operated at a batch level.</li> </ul>	<ul style="list-style-type: none"> <li>Introduce direct authorisation controls for journals.</li> </ul>

## Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

## Other communication requirements

We set out below details of other matters which we are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit and Assurance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.</li> </ul>
2.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>We are not aware of any significant incidences of non-compliance with relevant laws and regulations.</li> </ul>
3.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Council.</li> <li>In particular, representations will be requested from management in respect of outstanding equal pay claims and the latest position on the significant on-going contractual dispute.</li> <li>The reasons for not amending the financial statement for the items identified on page 17 are to be included in the Letter of Representation</li> </ul>
4.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>
5.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related party transactions which have not been disclosed. A related party disclosure omission relating to Orian Solutions Ltd has now been amended as outlined in Section 2 Misclassification and disclosure changes on page 16.</li> </ul>
6.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>Our work has not identified any reason to challenge the Council's decision to prepare the financial statements on a going concern basis.</li> </ul>

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## Section 3: Value for Money

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, with the exception of the matter reported below on Child Protection, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In May 2012, a joint report by Ofsted and the Care Quality Commission concluded that arrangements for protection of children in the Cumbria County Council area were judged to be inadequate. A further report by Ofsted in June 2013 confirmed that, although the Council had made some improvements, overall arrangements for the protection of children remained inadequate.

We have submitted up to date evidence to our internal moderation panel to ensure a consistent approach across all authorities. The panel supports an "except for" modified VFM conclusion qualification on this children protection issue.

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# Value for Money

## Value for money conclusion

The Code of Audit Practice 2010 (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; and
- review regularly the adequacy and effectiveness of these arrangements.

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

**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 considered the Council's arrangements to secure financial resilience against the following themes:

- Key financial performance indicators
- Financial governance
- Financial planning
- Financial control

Overall, our work highlighted that, on key financial resilience key indicators the Council is largely in the mid-range against its benchmarked comparator authorities. The Council continues to face significant financial challenges and its Medium Term Financial Plan has aligned resources to Council priorities. The Council is confident it will bridge the £27.4m 2015/16 budget gap and we acknowledge it is working up plans to deliver on the three year £68.9m gap up to 2017/18. The updated budget gap position was reported to full Council on the 24<sup>th</sup> April 2014.

### Challenging economy, efficiency and effectiveness

We have considered the Council's arrangements to challenge economy, efficiency and effectiveness against the following themes:

- Prioritising resources
- Improving efficiency & productivity.

We have also undertaken work in the following areas to address the risks identified on:

- child protection and secondary school Ofsted inspections
- Better Care Fund in terms of how the local pooled budget, governance and partnership arrangements are being worked through
- VfM implications of the material contractual dispute
- progress being made on delivering the significant BDUK project Connecting Cumbria
- capital programme slippages and sickness absence management.

Overall, our work highlighted a positive direction of travel on these key risk areas but we recognise more is required to achieve better value for money on these business critical areas.

## 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 all significant respects the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014, with the exception of the arrangements for the protection of children in Cumbria.

We set out below our detailed findings against six risk areas which have been used to assess the Council's performance against the Audit Commission's criteria. We summarise our assessment of each risk area using a red, amber or green (RAG) rating, based on the following definitions:

<b>Green</b>	<b>Adequate arrangements</b>
<b>Amber</b>	<b>Adequate arrangements, with areas for development</b>
<b>Red</b>	<b>Inadequate arrangements</b>

The table below and overleaf summarises our overall rating for each of the themes reviewed:

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Key indicators of performance</b>	<p>The Council continues to face significant financial challenges and its Medium Term Financial Plan has aligned resources to Council priorities. The budget gap in the MTFP was updated in April 2014 and the Council is confident that it will bridge the £27.4m 2015/16 budget gap and we acknowledge it is working up plans to deliver on the three year £68.9m gap up to 2017/18.</p> <p>Benchmarked key indicators of financial performance indicate that, in general terms, the Council is in the mid range and following recent trends in line with its nearest neighbours comparator group for most indicators. The Council's liquidity is improving and moving in a similar trend to its comparator benchmark group. Working capital ratio has improved from 1.87 to 1.95 from March 2013 to March 2014, but will come under increasing pressure during the current spending review period and beyond, so it will need to be carefully monitored.</p> <p>Overall, the Council's level of available reserves and contingencies provide adequate cover for known financial risks.</p> <p>The trend of greater long term borrowing to revenue and long term asset base ratio, moving from 0.376 to 0.378 between March 2013 and March 2014, is as a direct result of new fire station PFI scheme coming on balance sheet, along side the development road, waste treatment plants and other fire stations.</p> <p>The Council's 2013/14 net General Fund revenue outturn indicates a balanced budget has been achieved, with overspends in directorate pressures principally from Children Services, managed through offset by corporate savings and receipt of unexpected grants. This has been achieved during a year when around £24.5m savings have also been realised.</p> <p>The Council continues to demonstrate good financial performance. The Council's level of general balances remains around £15m, which is in line with the limit set in the Council's medium term financial strategy</p> <p>There remains scope for better profiling of the capital programme. There was slippage of £47.6m against the revised budget of £111.9m during 2013/14. We do acknowledge there are valid reasons for much of the slippage and more detail on this specific VfM risk area is provided later.</p>	<b>Green</b>	<b>Green</b>

Value for money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Key indicators of performance - continued</b>	<p>The average of 13.84 sickness absence days per FTE for staff is well above local government, public and private sector averages. Again sickness absence is covered in more detail later given the continuing significance of this issue.</p> <p>There is no real trend pattern across the benchmark group for the School balances to Dedicated Schools Grant (DSG) ratio. County's balance has decreased slightly from 5.5% in 2012/13 to 5% in 2013/14 of the total DSG allocation unspent and it was the lowest in the benchmark group for 2013, with an comparator average of 8 to 9%. There are more schools at 61 in surplus in 2013/14 but the value has reduced and if the 49 schools in deficit amounting to £2.7m was addressed it would bring the Council up to 6%. We acknowledge that the Council is continuing to work closely with schools and pupil referral units to ensure school balances are monitored.</p>	Green	Green
<b>Strategic financial planning</b>	<p>Ongoing financial resilience is key to the Council given the scale of the £24.5m savings largely delivered in 2013/14 as part of the total revenue budget deductions of £88m since April 2011, and the £70m additional savings required over the next three years up to March 2018.</p> <p>The Council has a comprehensive approach to its Medium Term Financial Planning (MTFP), budgeting and identification of saving plans, which are agreed at a corporate level, by senior officers and Members.</p> <p>The Council has good planning assumptions built into the annual and three year budget processes. The Council is responsive to changes required. There still remains scope for the Council to consider a more structured approach to factoring in opportunities upside of risk as well as downside risk when considering budget financial risks, although we acknowledge some opportunities are factored into the strategic planning stage.</p>	Green	Green

## Value for money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Strategic financial planning - continued</b>	<p>Further work is required to bridge the outstanding three year budget gap of £68.9m up to 2017/18, to provide greater certainty over the Council's financial health. The Council is faced with the continuing challenge of finding further savings which will become increasingly difficult. It will be essential therefore to ensure that its savings plans continue to be clearly communicated, link to specific policy decisions, and that the impact on service levels and quality is clearly identified and monitored.</p> <p>The Council has sound financial planning and review processes in place. Each year it sets a three year Medium Term Financial Plan (MTFP), with the current strategy covering the financial period 2014/15 – 2016/17. The strategy is aligned to the Council's corporate priorities, highlights the key financial risks, and adopts a prudent approach to funding streams. The Council has taken this approach to allow it to have the flexibility and resilience in order to address the variable nature of future funding.</p> <p>The MTFP highlighted in February 2014 that over the next few years there remained a significant budget gap of £25.1m in 2015/16 and £23.3m in 2016/17. The Council has achieved the required level of savings for 2014/15 and set out a number of options that it will consider to cover the budget gap for 2015-2017. The Council is currently revisiting its MTFP to ensure all priorities are aligned and that all levers available are used to manage its finances. An updated report was taken to Full Council on 24<sup>th</sup> April 2014 updating the three year (2015/16 – 2017/18) budget gap position.</p> <p>Whilst there remains a considerable challenge ahead to address the budget gap, the Council has a good track record of delivering savings.</p>	<b>Green</b>	<b>Green</b>
<b>Financial governance</b>	<p>On financial governance, regular financial resilience reviews need to continue to ensure the levels of reserves and the Council's liquidity are maintained at appropriate levels, which is critical in the current financial climate. There is scope to improve the delivery of approved capital programmes and to ensure robust assessments of the impact slippages have on service standards and delivery, especially on Council priority areas. In addition, the Council needs to continue to address sickness absence management arrangements and reporting to reduce the increasing trend in higher staff sickness days.</p> <p>The Council has a well established approach to financial governance in terms of understanding, stakeholder engagement and monitoring that has delivered positive results in recent financial years. It is critical that the Council continues to ensure regular on-going open engagement with all the Council's stakeholders in the context of the significant saving plans projected over the coming years.</p> <p>We also acknowledge that the Finance Section has rolled out budget manager training workshops for all budget holders up to the end of August 2014. This is further supported by learning and development programmes.</p> <p>Overall assessment is that the Council's finance function is adequately resourced with experienced and capable staff.</p>	<b>Green</b>	<b>Green</b>

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
Financial control	<p>There remains 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.</p> <p>We acknowledge that the Council has invested in training of its extended leadership team with assistant directors being encouraged to innovate. This is underpinned by the Strategic Planning Guidance, data packs and workshops with Cabinet members and Corporate Directors and Assistant Directors.</p> <p>The Council's has a robust approach to financial management. The Council also demonstrates appropriate deployment of internal and external assurance mechanisms to give assurance over financial governance. There is clear evidence that the Council is proactively managing delivery of the savings required rather than just reporting on it.</p>	Green	Green

## Value for money

Theme	Summary findings	RAG rating 2012-13	RAG rating 2013-14
<b>Prioritising resources</b>	<p>Senior management and members work well together developing the Council's priorities and the MTFP. The MTFP is at the forefront of the Council's business, through its annual review and via the quarterly reporting of performance against the budget. Members are not afraid to offer challenge and scrutiny when required. The Council continues to challenge the way services are delivered. Recent exercises include:</p> <ul style="list-style-type: none"> <li>• supporting business improvement through use of technology initiatives to improve future mobility, enhanced information sharing and communication with colleagues and clients;</li> <li>• engagement with the DCLG's Service Transformation Challenge Panel;</li> <li>• Invest to save capital programme on better places for work, Barrow 60 bed consolidated nursing home and energy saving street lighting programme; and</li> <li>• plans to restructure the management structure.</li> </ul> <p>The Council needs to continue to proactively challenge the way services can be delivered or where efficiencies can be achieved. The Council continues to have clear information on costs to help inform decision making. Budget monitoring and service and performance reports continue to be reported to the Scrutiny and the Executive Committees.</p>	Green	Green
<b>Improving efficiency &amp; productivity</b>	<p>The Council has a proven track record of delivering savings having achieved approximately £88m over the last three years up to March 2014. In addition the Council has already identified all of its 2014/15 budgetary savings allowing it to forecast close to a balanced budget for the year.</p> <p>Through our meetings with corporate directors there is greater focus on improving efficiency and productivity. For example, the current review of the management structure and governance arrangements within the Council is looking to secure significant savings.</p> <p>The Council's net spend per head of population is £1,293, which is above the average for the nearest neighbour group of £1,153. Due to the rural and sparse nature of Cumbria with a relatively low population the net spend per head for Cumbria will always be above average. From Audit Commission 2012/13 VFM profiles the only significant outliers are on:</p> <ul style="list-style-type: none"> <li>• Children services is £1,107 spend per young person aged 0-17 against nearest neighbour average of £920, which reflects the costs of Looked After Children and a Better Placements programme is in place to manage these costs over the medium term.</li> <li>• Net spend on environmental services per head is £66 against nearest neighbour average of £49, which is down to waste management recycling costs being almost twice as costly as the average but an amended recycling scheme in operation during 2013/14 has achieved savings of £0.8m. A second treatment plant is now on stream resulting in another change in contract values, but it has also increased performance deductions, which are contributing to reduced costs.</li> </ul>	Green	Green

## Value for Money

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission. and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<p><b>VfM implications from adverse child protection and secondary school Ofsted inspections</b></p> <p>Risks identified as a result of the May 2012 and May 2013 regulators Children Protection "Inadequate" assessed Inspections, with VfM related concerns raised on quality of effective services and the high cost of service provision.</p>	<p>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. We have reviewed the Safeguarding Improvement Board (SIB) progress and monitoring reports, responses from the Permanent Under Secretary, LGA peer review as reported in February 2014, and other Children services policies and procedures. We have reviewed evidence to support the positive direction of travel as highlighted from these various sources. In particular, we acknowledge that the changes in leadership has quickened the pace of change; an audit of all children subject to a child protection plan identified that 30% did not meet the threshold for this which has engendered more robust challenge across the partnership; open and honest performance reporting down to team level; and deep dive robust quality assurance audits, with partners.</p> <p>However, there remains further actions to fully address all of the issues raised in the Ofsted improvement notice, most notably achieving all of the key performance indicators (KPIs) targets, originally to be achieved within 6 months. We reviewed trends in the KPIs as at May 2014 a full year on but it still shows mixed performance with 8 out of the 17 KPIs still not on target. For example, excellent performance on Child Protection (CP) visits up from 72.5% to 98.3% and Children looked After (CLA) visits up from 84.1% to 97.3%, from 2013 to 2014, but CP and CLA reviews in timescale performance remains poor, 81.6% and 52.7% against a target of 100% respectively. We acknowledge this is driven partly by increase in volume and continuing variability of practice within child protection and safeguarding. The latest revised Improvement Plan approved by SIB in March 2014, shows 12 out of the 18 actions are now complete, 2 have slipped and 4 are on track for final implementation by 31 December 2014. However, all 6 KPIs relating to quality highlight an improvement.</p> <p>We are proposing to issue an except for VfM conclusion on the above matter as was the case in 2012/13 and this has been moderated through a Grant Thornton National Consistency Panel. We are satisfied that management continues to take 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 across the whole service, as recognised by the SIB and management. It is critical the Council addresses the quality and consistency of frontline children services social work practice across Cumbria through effective implementation of its workforce strategy of "grow your own" to reduce pockets of dependency on agency staff. The Directorate is working hard to ensure experienced team managers and social workers are in place.</p> <p>The red RAG rating does represent the position during 2013/14 and we acknowledge that the Council's concerted efforts on continuing to improve the protection of children arrangements in Cumbria.</p>	Red
<p>The Council received a letter from the Regional Director Inspector of Ofsted in February 2014, raising serious concerns about the quality of secondary education in the Cumbria county area.</p>	<p>We acknowledge of the 17 schools inspected 5 were academies, with 5 including the pupil referral unit placed in special measures , of which 1 was an academy. In summary none of the schools inspected had improved and 8 had declined. The inspections were triggered by key outcomes for children at the age of 16 have been significantly below the national average over 2011/2012 and 2012/13.</p> <p>We acknowledge that the Council is working through the Cumbria Alliance of Systems Leaders to improve educational attainment and related performance outcomes, with the aim of ultimately leading to better GCSE and A Level results. The Council is still validating the 2013/14 academic year results but continual robust management and monitoring of all secondary school performance is needed to drive up educational attainment.</p>	Amber

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<p><b>Better Care Fund (BCF)</b></p> <p>In terms of how the local pooled budget, governance and partnership arrangements are developing.</p>	<p>Our initial review in February and April 2014 identified reasonable progress was being made on the BCF agenda including joint development working. Areas for improvement were largely in line with the national picture on this relatively new initiative and included:</p> <ul style="list-style-type: none"> <li>• linking the aims and objectives to the actual outcomes planned for 2015/16, via setting out the detailed plans in each planned change area and linking this to how the KPIs will change, such as already done by clarity over the acute admissions/re-admissions/length of stay slowing and then reducing;</li> <li>• development of detailed financial and operational plans;</li> <li>• full consideration of the tax implications under the new pooled budget arrangements;</li> <li>• fully assess impact on NHS trust providers and continue consultation to secure buy in; and</li> <li>• development of robust but simple partnership governance and risk management arrangements.</li> </ul> <p>We acknowledge since April 2014, more work has been completed on breaking down KPIs further to include costings and detailed work-streams. Data quality is a regional and national issue and the Health and Social Care Directorate is working with the Cumbria Clinical Commissioning Group (CCG) to ensure robustness of baseline indicators and benchmarks. The detailed financial and operational plans are still in development, especially given the recent key policy changes in BCF issued on 25 July 2014. The work within the BCF draws from change programmes for North and South Cumbria, which are overseen by their respective programme boards. These boards include senior clinicians and The governance and risk management frameworks are still emerging but a structure is in place as overseen by the Joint Commissioning Board, BCF Integrated Board, Health and Well Being Board (HWBB). Detailed risk logs are now in place including "what if" scenarios.</p> <p>The Directorate is responding to the recent BCF key policy changes and is working on meeting the new requirement on a minimum 3.5% target reduction on Emergency Department admissions and it is working closely with NHS providers through the Improvement Programme Boards. The revised Plan is in development and is still subject to HWBB approval but the Council is confident it will be submitted by the 19 September 2014 deadline.</p> <p>A Scrutiny review of the Integrated Health and Social Care arrangements in Cumbria was reported in June 2014, which made 8 recommendations for the Council to take forward. The review acknowledges effective joint working, good practice on ICT but did highlight the need for the HWBB to produce a joint risk register, clearer lines of ownership and responsibility and to generate some pilots. Internal Audit's partial assurance review of the BCF reported in September 2014 highlighted similar concerns around governance and risk management and contingency funding arrangements. We acknowledge that the pace of change on the BCF agenda means a number of these recommendations have already been implemented.</p> <p>NHS England and our own concerns on the financially stressed Cumbria wide health economy remains a significant challenge to the successful implementation of the BCF. The Council needs to continue the close working it has established with all the key stakeholders to ensure the benefits of integrated health and care with seamless user friendly pathways of care are realised. It is important that the Council learns from other innovative practice, especially from the 14 Pioneer Programmes established across England in November 2013.</p>	Green

## Value for Money

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<b>Contract monitoring arrangements</b> Risk of the Council not adequately managing contract monitoring arrangements especially in the context of the current contractual dispute.	<p>We are satisfied that the Council is dedicating sufficient senior management and specialist professionals and staff input to rebut the disputed contract claim and to provide a robust counter claim. 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.</p> <p>The Council has implemented measures in Highways to ensure the ongoing quality and cost of service delivery is effective. This included a thorough induction process with new how we do business and rewritten operational methodologies, reinforced by tool box quality challenge sessions. DIP sampling of Highways and a move to more proactive programming on patch and resurface, better water drainage approaches are contributing to an improved VfM service.</p>	Green
<b>Delivering the BDUK project</b> Risk of not project managing the Connecting Cumbria project to deliver.	<p>There had been 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. The Connecting Cumbria project is aiming to deliver phase 1 Superfast Broadband with a minimum service at peak times of 24 Mega bytes per second(mbps) or above to 93% of premises in Cumbria and a minimum 2mbps to the remaining 7% of premises, by December 2015. At the end of May 2014 50% coverage had been achieved.</p> <p>The Directorate of Environment &amp; Community Services is confident that delivery is on track in relation to the number of local exchange connections the contractor is making available is on schedule but there remains issues on the financial claims from the contractor, which still pose a risk in terms of making claims on defrayed expenditure against the £13.9m ERDF secured funding. At the end of June 2014 the ERDF claim and related defrayed expenditure remains significantly behind the profiled spend. We have reviewed an ERDF Article 13 Progress and Verification (PAV) Monitoring Visit and can confirm it was positively concluded on 14 April 2014 and an Article 16 is expected later in this year.</p> <p>Delivering Connecting Cumbria is a key priority for the Council, supporting its economic ambitions. The Council needs to continue to deploy highly effective and innovative project management to co-ordinate delivery of this project, which is now scheduled to be completed in a relatively short timeframe. We acknowledge that, the Council is managing its financial risks on the ERDF claim lag through additional resources being brought in to the project team, and where required utilising external legal advice. As the accountable body the Council still needs to sustain the pressure it has already applied on the contractor through robust contract monitoring.</p>	Green
<b>Capital programme slippages</b> VfM implications of slippage on capital programme especially on invest to save schemes.	<p>The Capital programme in 2013/14 experienced slippage of £47.6m on a total planned scheme of £111.9m, with £11.5m relating to connecting Cumbria, £3.3m on School maintenance projects, highways £11.1m. As a result the 2014/15 £114.3m programme is ambitious, especially as spend up to June 2014 is £8.3m, with connecting Cumbria and highways capital programmes continuing to be significantly underspent. There is scope to improve the delivery of approved capital programmes and to ensure robust assessments of the impact slippages have on service standards and delivery, especially on Council priority areas.</p> <p>We acknowledge that the direction of travel on the Council's approach to the capital programme is positive, including the re-profiling of some of the programme over 5 year. The Council has a number of impressive current invest to save initiatives including better places for work drive to reduce corporate offices from 64 to 7 with William Street development the key spend in 2014-16 of £10.8m, 60 bed elderly peoples home £4.6m scheme consolidating 5 existing homes and energy saving street lighting programme of £7.6m. The Council has a more centralised support framework driven through the Strategic Investment Group to ensure the capital programme going forward is supporting transformation and the Council is also currently engaging with the DCLG Service Transformation Challenge Panel.</p>	Amber

## Value for Money

To support our VfM conclusion against the specified criteria we performed a risk assessment against VfM risk indicators specified by the Audit Commission, and additional indicators identified by ourselves. Following completion of our work we noted the following residual risks to our VfM conclusion:

Residual risk identified	Summary findings	RAG rating
<p><b>Sickness absence management</b></p> <p>Potential costs and impact on quality of service delivery as a result of high levels of sickness absence, in particular within community care.</p>	<p>The County's sickness absence levels continue to be well above all sector averages. The Council's reported absence level during 2013/14 of 13.81 days (12.44 days in 2012/13) per FTE is significantly above the national local government average of 8.8 days in 2012/13.</p> <p>The recent upward trend from 10.7 days per FTE in 2010/11 rising to 13.81 days per FTE for 2013/14, represents an increase of 29% over the past four years. However we acknowledge that the Council has concerns about the data quality of information in 2010/11.</p> <p>The Council does carry out sickness related performance monitoring and is targeting specific high sickness areas such as in house adult care provision (Cumbria Care), which has 22 days (23.5 days in 2012/13) per FTE in 2013/14.</p> <p>We understand that in Cumbria Care and Children's Services senior management are continuing to target sickness rate reduction through monthly monitoring and that Corporate HR is running a project which is targeting resolution of the most long term cases with a view to resolving these over the next 9 to 12 months.</p> <p>We acknowledge the poor performance in Cumbria Care's sickness absence does have an impact on the rest of the non school staff average for 2012/13, which would be 10.6 days (in 2013/14) per FTE if Cumbria Care staff are excluded. Data quality has already been the subject of work in relation to most areas of the Council and there is now greater confidence in the data associated with these records. Data quality in Cumbria Care is now in the process of being addressed as their own records show sickness to be 9 days. An exercise to recalculate the sickness level in Cumbria Care by removing the impact of multiple contracts and zero hours contracts reduces the reported 22 day to approximately 16 days – below the sector average.</p> <p>We acknowledge that the Council is addressing sickness absence through on line sickness recording, revised policies and procedures, stuck not sick initiatives and line manager workshops. There are no defined directorate targets on sickness rates although monitoring arrangements are improving. The profile of sickness is also largely inverted compared to industry comparators, according to HR with 75% of sickness being long term as opposed to industry comparator of 40%.</p> <p>Scrutiny is currently reviewing sickness absence and will receive a further update in November 2014.</p> <p>Given the significant organisational change that is currently taking place, it is important for senior management to continue to take a robust approach to sickness absence management following the last four year upward trend to March 2014.</p> <p>The Council needs to revisit its arrangements on absence management especially on long term sickness, which is particularly important in a transitional period of having to deliver challenging saving plans.</p>	<p><b>Amber</b></p>

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## Section 4: Fees, non audit services and independence

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

There is no variation in actual fee against the planned fee for the 2013-14 audit.

## Fees, non audit services and independence

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

### Fees

	Per Audit plan £	Actual fees £
Council audit	152,820	152,820
Grant certification	4,800	4,800
<b>Total audit fees</b>	<b>157,620</b>	<b>157,620</b>

**There is no variation in actual fee against the planned fee for the 2013-14 audit. Note the certification work is not required under the Audit Commission certification regime. It will, however, be completed under a separate direct certification arrangement agree with the Department for Education. The final fee will reported to the Audit and Assurance Committee in our annual certification report.**

### Fees for other services

Service	Fees £
None	Nil

### 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we 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 Auditing Practices Board's Ethical Standards.

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## Section 5: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Fees, non audit services and independence

05. Communication of audit matters

We have complied with all of the International Standards on Auditing which relate to our communications with those charged with governance the Audit and Assurance Committee.

# Communication of audit matters to those charged with governance

International Standard on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

## Respective responsibilities

The Audit Findings Report 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](http://www.audit-commission.gov.uk)).

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

# Appendices

# Appendix A: Action plan

## Priority

**High - Significant deficiency** – risk of significant misstatement or significant impact on VfM

**Medium - Deficiency** - risk of inconsequential misstatement or impact on VfM

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Introduce direct authorisation controls for journals.	Medium	<p>As part of the e5 upgrade programme in January 2012, the entry of journals into e5 is now restricted to Finance staff members. Supplementary evidence from the budget holders is maintained where appropriate.</p> <p>Internal Audit carried out testing in 2012/13 as part of its programme of independent assurance work and concluded that this is a sensible control that further helps to eliminate unauthorised journal entries. It also concluded that the key controls over e5 journals are operating effectively and, should they continue to operate in this manner, will provide reasonable assurance for the year.</p> <p>As reported to the Committee last year it is considered that the additional workload required to provide such additional authorisation is not justified by the residual risk.</p>	No action proposed.
2	Review estimation techniques used in the context of potential earlier future years sign offs, and in particular fine tune estimates of cheque book school cash and creditor balances.	Low	The use of estimates will likely increase in future years. The Council will review the use of estimates and ensure that any impact on all the Primary Statements is taken into account before they are introduced as part of the Closedown procedures.	31 March 2015 Pam Duke Senior Manager Accountancy

# Appendix A: Action plan

## Priority

**High - Significant deficiency** – risk of significant misstatement or significant impact on VfM

**Medium - Deficiency** - risk of inconsequential misstatement or impact on VfM

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
3	Manage the quality and consistency of frontline children services social work practice across Cumbria through effective implementation of the workforce "grow your own" strategy to reduce the use of agency staff.	Medium	<p>Cumbria has recruited six trainee social workers from its existing cohort of child and family workers. This is year one of a three year programme and will ultimately create 18 additional social workers, which will reduce the reliance on agency social workers. The trainees have been recruited across the county but explicitly in the west of Cumbria where the need is greatest. The programme of learning is delivered in partnership with the University of Cumbria.</p> <p>In recognition of both the importance and shortage of qualitative Team Managers Cumbria again with the University of Cumbria is recruiting to an Aspirant Team manager programme which will also reduce the reliance on agency team managers developing a sufficient internal pool to recruit from.</p>	<p>Ongoing</p> <p>John Macilwraith Acting Corporate Director of Children Services</p>
4	Review sickness absence management arrangements, especially management of long term sick, improving data quality and ensuring directorate/ manager ownership underpinned by targets to reduce the increasing trend in staff sickness days.	Medium	<p>Following acceptance of the majority of the recommendations of the Scrutiny Task and Finish Review in 2012, the Council has made significant progress. Key improvements implemented include the refresh of the Council's Positive Attendance procedure, the introduction of monthly metrics for management teams and the introduction of the 'stuck not sick' procedure.</p> <p>Scrutiny agreed to a further programme of work in May 2014, currently in progress to improve absence performance. These agreed actions focus upon improvements within three key areas: Organisational Culture, Clarity of roles and Clarity of process. Key interventions include; the introduction of absence targets within specific service areas, HR led intervention for long term sick, targeted support for 'hot spots' such as Cumbria Care and increased management accountability through management development.</p>	<p>Ongoing</p> <p>Alan Greaves Interim Acting Assistant Director People Management</p>

## Appendix B: Cumbria County Council - Audit opinion

**We anticipate we will provide the Council with an unqualified accounts opinion and an except for VFM conclusion audit report**

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

#### Opinion on the financial statements

We have audited the financial statements of Cumbria County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Group Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Group Comprehensive Income and Expenditure Statement, the Balance Sheet, the Group Balance Sheet, the Cash Flow Statement, the Group Cash Flow Statement, and the related notes and include the firefighters' pension fund financial statements comprising the Fund Account, the Net Assets Statement and the related notes 1 to 48. 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 2013/14.

This report is made solely to the members of Cumbria County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

#### Respective responsibilities of the Assistant Director - Finance and auditor

As explained more fully in the Statement of the Assistant Director - Finance's Responsibilities, the Assistant Director - Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Group's circumstances and have been consistently applied and adequately disclosed;

the reasonableness of significant accounting estimates made by the Assistant Director - Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on financial statements

In our opinion the financial statements:  
give a true and fair view of the financial position of Cumbria County Council as at 31 March 2014 and of its expenditure and income for the year then ended;  
give a true and fair view of the financial position of the Group as at 31 March 2014 and of its expenditure and income for the year then ended; and  
have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

#### Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### Matters on which we report by exception

We report to you if:  
in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;  
we issue a report in the public interest under section 8 of the Audit Commission Act 1998;  
we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or  
we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

## Appendix B: Cumbria County Council - Audit opinion

**We anticipate we will provide the Council with an unqualified accounts opinion and an except for VFM conclusion audit report**

### **Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### ***Respective responsibilities of the Authority and the auditor***

The Authority is responsible for putting in place proper arrangements to secure 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.

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission. We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place 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.

#### ***Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources***

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those 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 2014.

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 form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Basis of qualified conclusion**

In seeking to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, we have considered reports issued by other regulators. In May 2012, a joint report by Ofsted and the Care Quality Commission concluded that overall arrangements for protection of children in the Cumbria County Council area were judged to be inadequate. A further report by Ofsted in June 2013 confirmed that, although the Council had made some improvements, overall arrangements for the protection of children remained inadequate. Subsequent update letter from the Department of Education in August 2014, also highlight that significant improvements are still required to these services.

### **Qualified Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, with the exception of the matter reported in the basis for qualified conclusion paragraph above, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

### **Certificate**

We certify that we have completed the audit of the financial statements of Cumbria County Council in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jackie Bellard  
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
4 Hardman Square  
Spinningfields  
Manchester M3 3EB

25th September 2014

## Appendix B: Cumbria Local Government Pension Scheme - Audit opinion

**We anticipate we will provide the Pension Scheme with an unmodified accounts opinion.**

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

#### Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Cumbria County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2013/14.

This report is made solely to the members of Cumbria County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. 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.

#### Respective responsibilities of the Assistant Director - Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Account, the Assistant Director - Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director - Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the

Explanatory Foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

#### Opinion on other matters

In our opinion, the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Jackie Bellard  
Director for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
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Spinningfields  
Manchester M3 3EB

25<sup>th</sup> September 2014



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