

The Audit Findings for South Lakeland District Council

Year ended 31 March 2019

22 July 2019

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



Contents



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

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of South Lakeland District Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

<p>Financial Statements</p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Council and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work has been completed on site during June and July 2019. Our findings are set out in this report. We have not identified any errors in the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement or Balance Sheet.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion as outlined in Appendix C. The legal ruling around age discrimination (McCloud - Court of Appeal) has had implications for your pension scheme and your accounting for pension scheme liabilities. A revised actuarial valuation was received on 15 July 2019, and these changes have been reflected in the revised financial statements. Additional audit work on this matter is in progress.</p> <p>The draft financial statements presented for audit were of good quality, as were the supporting working papers.</p> <p>Subject to the satisfactory resolution and completion of outstanding matters, we anticipate issuing an unqualified audit opinion following approval of the accounts by the Audit Committee. We are still finalising our work in the following areas:</p> <ul style="list-style-type: none"> • Receipt and review of the assurance letter from the Cumbria County Council Pension Fund auditor. • Final elements of the revaluations work for Property Plant and Equipment.. • Receipt and review of the final confirmation in relation to contingent liabilities from the Monitoring Officer. • Residual work on other disclosures. <p>Our work is subject to the following closing procedures which take place at the end of the audit:</p> <ul style="list-style-type: none"> • Final senior management and quality reviews and clearance of any queries that may arise from this final process. • Agreement of your management representation letter. • Consideration of subsequent events. • Review of the final set of approved financial statements.
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Headlines (continued)

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that South Lakeland District Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix C.

Statutory duties

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

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

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

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

Acknowledgements

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

Summary

Overview of the scope of our audit

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

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

Audit approach

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

- an evaluation of the Council's internal control environment, including the IT systems and controls;
- controls testing of the accounts payable system; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our Audit Plan, as communicated to management in April 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries, set out on page 3, being resolved we anticipate issuing an unqualified audit report opinion following the Audit Committee meeting on 25 July 2019, as detailed in Appendix C.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for South Lakeland District Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,372,000	<ul style="list-style-type: none"> • Derived using your 2017/18 outturn figure and capped at 2% of gross expenditure
Performance materiality	1,029,000	<ul style="list-style-type: none"> • Based on a percentage of materiality derived from the risk of misstatement
Trivial matters	69,000	<ul style="list-style-type: none"> • Based on a percentage of materiality
Materiality for senior officers remuneration	5,000	<ul style="list-style-type: none"> • Bandings for senior manager pay disclosures

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

Income from fees and charges

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

For South Lakeland District Council we have concluded that the greatest risk of material misstatement relates to fees and charges income. We have therefore identified the occurrence and accuracy of fees and charges income as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.

We have rebutted this presumed risk for the other revenue streams of the Authority, as other income streams are primarily derived from grants or formula based income from central government and tax payers.

Auditor commentary

We have:

- evaluated the Authority's accounting policy for recognition of income from fees and charges for appropriateness;
- gain an understanding of the Authority's system for accounting for income from fees and charges and evaluated the design of the associated controls; and
- agreed, on a sample basis, amounts recognised as income from fees and charges in the financial statements to gain assurance over occurrence and accuracy.

Subject to the satisfactory resolution of outstanding matters set out on page 3, our audit work has not identified any issues in respect of the risk that revenue may be misstated as a result of the improper recognition of income.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

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

Subject to the satisfactory resolution of outstanding matters set out on page 3, our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of land and buildings

The Authority revalues its land and buildings on a rolling four-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the asset base, numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.

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

Auditor commentary

We have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- discussed with the valuer the basis on which the valuation was carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- compared asset valuation movements against valuation indices to assess reasonableness of asset valuation movements.

Our work identified a control weakness in relation to the overall review of the external valuer's report. At the year end the final report had not been compared with the asset valuation changes made on the asset register/ledger and as a result the revaluation of the lake assets had not been processed.

Subject to the completion of the outstanding items listed on page 3, our audit work has not identified any issues in respect of the valuation of land, buildings and investment property.

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

4

Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Auditor commentary

We have:

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

Additional work has been completed in relation to the potential impact on the Council of the national McCloud appeal ruling. This work has included:

- reviewing the processes used by management in the evaluation of the impact of the McCloud judgment and the quantification of the potential impact on the financial statements, including how management confirmed the adequacy of work carried out by actuary;
- assessing and challenging the relevance and reasonableness of all significant assumptions and methods used to generate the McCloud estimate by the actuary, including understanding how the organisation's workforce profile could affect this as the matter centres around age discrimination and potential increases in pension liability;
- considering whether the estimate of the potential impact is in line with our expectations; and
- checking management's amendments to the financial statements for the impact calculated by Mercer.

Significant findings - other issues

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

Issue	Commentary	Auditor view
<p>1 Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but the permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for fire fighter pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits such as the Local Government Pension Scheme.</p>	<p>Management requested an updated estimate from the actuaries of the potential impact of the McCloud ruling. This was received on 15 July 2019 and indicates a significant increase in past service cost with an increase in net liability of £0.608m. The impact of this is estimated to be an:</p> <ul style="list-style-type: none"> • Increase in past service costs +£0.608m • Increase in net pension liability +£0.608m <p>Management has assessed the work undertaken by Mercer and judged that the potential impact on the Council is sufficiently material to have updated the financial statements in relation to these amounts.</p>	<p>We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable. We are satisfied that the Council has appropriately accounted for this liability increase.</p>

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £59.2m	<p>Other land and buildings comprises £19.4m of specialised assets such as leisure centres and public halls, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£39.8m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Lambert Smith Hampton (LSH) to complete the valuation of properties as at 31/03/2019 on a four yearly cyclical basis. 62% of total other land and building assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net increase of £4.6m.</p> <p>Management have considered the year end value of non-valued properties but do not believe that there has been a material change in the total value of these properties. This is based on the 'Overall Assets Review' that management instruct LSH to perform each year to determine whether there has been a material change in the total value of these properties. The review confirms that existing valuations are still reasonable relative to material changes in property market conditions, change in usage or utilisation. This review has regard to local and national market trends. For 2018/19, no additional properties have been revalued as a consequence of this review. To gain further assurance, in addition to the assets revalued on the rolling programme, any single asset exceeding 10% of the Council's total land and building asset value is revalued every other year. Management also review anything that may impact non-revalued assets, such as enhancements, and request for additional properties to be revalued if required.</p> <p>The total year end valuation of Other land and buildings was £59.2m, a net increase of £2.9m from 2017/18 (£56.3m).</p>	<ul style="list-style-type: none"> • Our findings from the completion of this work are detailed on 7. • We are satisfied that the asset values are appropriately stated, subject to the satisfactory completion of outstanding work as set out on page 3. 	 Green

Assessment

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

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment																								
Net pension liability – £37.9m	<p>The Council's net pension liability at 31 March 2019 is £37.9m (PY £32m) comprising the Cumbria Local Government defined benefit pension scheme obligations.</p> <p>The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £3.1m net actuarial loss during 2018/19, post impact of Mc Cloud.</p>	<p>In understanding how management have calculated the estimate of the net pension liability we have:</p> <ul style="list-style-type: none"> assessed the use of a management's expert actuary (Mercer) assessed the actuary's roll forward approach taken used PwC as an auditors expert to assess actuary and assumptions made by the actuary (see the table below) 	 Green																								
<table border="1"> <thead> <tr> <th data-bbox="795 475 1292 546">Assumption</th> <th data-bbox="1292 475 1448 546">Actuary Value</th> <th data-bbox="1448 475 1603 546">PwC range</th> <th data-bbox="1603 475 1800 546">Assessment</th> </tr> </thead> <tbody> <tr> <td data-bbox="795 546 1292 596">Discount rate</td> <td data-bbox="1292 546 1448 596">2.4</td> <td data-bbox="1448 546 1603 596">2.4 - 2.5</td> <td data-bbox="1603 546 1800 596" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="795 596 1292 661">Pension increase rate</td> <td data-bbox="1292 596 1448 661">2.3%</td> <td data-bbox="1448 596 1603 661">2.2 - 2.3%</td> <td data-bbox="1603 596 1800 661" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="795 661 1292 725">Salary growth</td> <td data-bbox="1292 661 1448 725">3.7</td> <td data-bbox="1448 661 1603 725">2.1-4.35%</td> <td data-bbox="1603 661 1800 725" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="795 725 1292 832">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1292 725 1448 832">23.3 / 25.6</td> <td data-bbox="1448 725 1603 832">22.2 – 23.7 / 24.8 – 26.3</td> <td data-bbox="1603 725 1800 832" style="text-align: center;">●</td> </tr> <tr> <td data-bbox="795 832 1292 932">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1292 832 1448 932">25.9 / 28.6</td> <td data-bbox="1448 832 1603 932">25.0 – 26.4 / 27.9 – 29.0</td> <td data-bbox="1603 832 1800 932" style="text-align: center;">●</td> </tr> </tbody> </table>				Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.4	2.4 - 2.5	●	Pension increase rate	2.3%	2.2 - 2.3%	●	Salary growth	3.7	2.1-4.35%	●	Life expectancy – Males currently aged 45 / 65	23.3 / 25.6	22.2 – 23.7 / 24.8 – 26.3	●	Life expectancy – Females currently aged 45 / 65	25.9 / 28.6	25.0 – 26.4 / 27.9 – 29.0	●
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<ul style="list-style-type: none"> assessed the completeness and accuracy of the underlying information used to determine the estimate impact of any changes to valuation method undertook a reasonableness test of the Council's share of LPS pension assets. assessed the reasonableness of the movement in the estimate assessed the adequacy of disclosure of estimate in the financial statements. 																											

Assessment

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

Significant findings - Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management’s assessment process

Management has prepared the financial statements and the MTFP on the basis that the Council will continue as a going concern. The MTFP forecasts achievement of the budget as at 31 March 2020 and includes relevant funding assumptions.

Auditor commentary

- Cashflow projections and the medium term financial plan demonstrate sufficient liquidity to meet liabilities as they fall due for at least the next 12 months.
- We are satisfied with the adequacy of management’s processes for the preparation of the 2019/20 MTFP.
- The Council’s use of the going concern basis of accounting is appropriate.

Work performed

We evaluated management’s assessment of the Council’s ability to continue as a going concern and determine whether or not a material uncertainty exists.

Auditor commentary

- Based on our review, we concur with management’s assessment of the Council’s ability to continue as a going concern. We also agree that no material uncertainties related to events or conditions which may cast significant doubt about the going concern assumption exist.

Concluding comments

Auditor commentary

- Our audit opinion will be unmodified in relation to going concern.
 - We have not identified to date any events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.
-

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit 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 procedures.
② Matters in relation to related parties	Amendments have been made to the related party disclosure following our audit work. We are not aware of any related parties or related party transactions, which have not been appropriately disclosed.
③ Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	A letter of representation has been requested from the Council which is in the Audit Committee papers.
⑤ Confirmation requests from third parties	We requested from management permission to send confirmation requests to financial institutions with which the Council holds cash, investments and borrowing. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
⑥ Disclosures	Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided. Our findings are subject to the satisfactory completion of our work and the matters set out on page 3.

Other responsibilities under the Code

Issue	Commentary
<p>① Other information</p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified but our feedback on the narrative report suggested some changes, including risks and opportunities, materiality, operating model and value creation and enhanced disclosures on going concern, which the Council has incorporated as appropriate.</p> <p>We plan to issue an unmodified opinion in this respect as included in Appendix C.</p>
<p>② Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties. <p>We have nothing to report on these matters.</p>
<p>③ Specified procedures for Whole of Government Accounts</p>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the threshold.</p>
<p>④ Certification of the closure of the audit</p>	<p>We intend to certify the closure of the 2018/19 audit of South Lakeland District Council in the audit opinion, as detailed in Appendix C.</p>

Value for Money

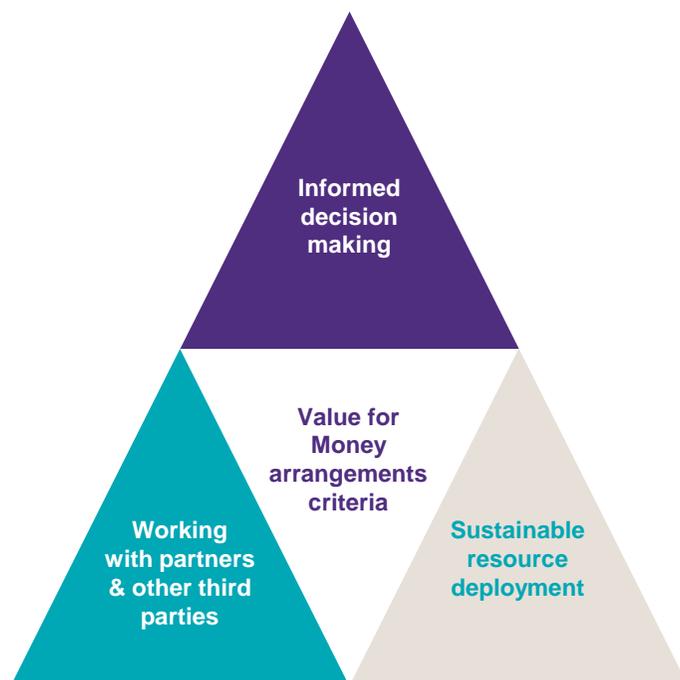
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

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

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



Risk assessment

We carried out an initial risk assessment in March 2019 and identified one of significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these related risks to you in our Audit Plan in March 2019.

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

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were the:

- Council's outturn position against budget for 2018/19;
- robustness of your Medium Term Financial Strategy and plans for delivery of savings requirements over the coming years.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 17 and 18.

Overall conclusion

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

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

Significant difficulties in undertaking our work

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

Significant matters discussed with management

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

Key findings

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

	Significant risk	Findings
<p data-bbox="70 272 113 311">1</p> <p data-bbox="182 272 457 297">Financial sustainability</p> <p data-bbox="182 301 569 582">On 24 July 2018 the Council approved the business case, including the new operating model for the Council, under the Customer Connect Programme. A key part of this change programme relates to a management restructure, with the key focus on bringing the operational decision making closer to the customer.</p> <p data-bbox="182 601 569 858">The new structure will take effect from 1 April 2019 and it is expected to contribute £0.740m of savings in 2019/20 and £1.55m from 2020/21. The MTFP presented to Council on 26 February 2019 showed that, after inclusion of the Customer Connect savings a balanced budget can be achieved in 2019/20.</p> <p data-bbox="182 872 569 1158">However, from 2020/21 additional efficiencies are required of £0.62m and this rises to £1.985m in 2023/24. Some savings have been identified from the capital programme from 2019/20 onwards but there are still significant efficiencies to be identified to achieve a medium term balanced position.</p>	<p data-bbox="569 272 762 297">2018/19 outturn</p> <p data-bbox="569 301 1968 396">The Council has a comprehensive approach to its medium term financial planning and budgeting. The strategy is aligned to the Council's corporate priorities and aims and takes into account the major service strategies and plans, the external financial environment, the overall financial demands of services and the Council's existing and projected financial resources.</p> <p data-bbox="569 401 1968 554">The Council delivered a balanced budget in 2018/19. Whilst service expenditure was £210,000 more than budget when the impact of the carry forward amounts are taken into account there is a surplus of £270,000 on the general fund. The full details of service variances have been reported through the out-turn report to Cabinet on 17 July 2019 and Council 23 July 2019. The largest service variance relates to Performance and Innovation where Customer Connect costs were higher than budget as a result of the transitional staff costs, however these were offset by management of staff costs elsewhere across services.</p> <p data-bbox="569 558 1968 672">The capital outturn for 2018/19 was £4.025m against a budget of £7.661m. All of the £3.636m underspend/slippage on the capital programme has been carried forward and re-profiled over future years. The majority of this reprofiling relates to schemes where the Council is working with other partners to deliver projects and where the Council has been waiting for the completion of actions by these other parties before the project could progress.</p> <p data-bbox="569 676 1968 772">Included within the Council's capital programme are two major new schemes funded from capital grants – the Coastal Communities Fund project at Grange over Sands and the Kendal ERDF funded flood works. Other recurring sources of capital income have declined significantly over the last five years.</p> <p data-bbox="569 776 1968 839">Approximately half of the Council's income is received from car parking and lake income. However, overall income from car parking has not increased since 2011/12. The MTFP has included an increase in income levels in line with RPI.</p> <p data-bbox="569 843 1968 996">Overall total usable reserves at 31 March 2019 remain consistent with the balance as at 31 March 2018 at a value of £24.5m. The Council's earmarked reserves stand at £16.4m at 31 March 2019 and these include two general fund reserves; a general fund working balance of £1.5m and a general reserve which stands at £4.8m at 31 March 2019. Whilst this general reserve decreased by £1.2m (20%) in year there has been a £0.8m increase in other revenue reserves fulfilling the decision to remove carried forward balances sitting in the general reserve into appropriate earmarked reserves.</p> <p data-bbox="569 1001 907 1025">Medium Term Financial Plan</p> <p data-bbox="569 1029 1968 1272">The Medium Term Financial Plan (MTFP) for 2019/19 to 2023/24 approved by Council in July 2018 and updated in February 2019, demonstrated that appropriate steps were being taken to ensure a balanced budget position was maintained despite reduced Government funding. The Council has adopted a prudent approach to predicting changes to the future of funding, given the uncertainty caused by the Fair Funding Review and review of the Business Rates Retention Scheme, the outcomes of which are not expected until later in 2019/20, at the earliest. After use of reserves set aside for the Customer Connect programme the MTFP forecasts a balanced position for 2019/20 but cumulative budget gaps rising from £620,000 in 2020/21 to £1.985m in 2023/24. £500,000 per year of this budget gap arises directly from the assumptions made in the MTFP in relation to the funding reductions. We consider this to be prudent and a best practice approach.</p> <p data-bbox="569 1276 1968 1360">The level of earmarked reserves is expected to reduce from £16.4m at 31 March 2019 to £11.8m at 31 March 2020. This reduction is planned and is a result of the utilisation of the customer connect reserve and associated capital reserves. Reserves across the remainder of the period of the MTFP remain stable.</p>	

Key findings

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

	Significant risk	Findings
1	Financial sustainability	<p>Customer Connect</p> <p>Customer Connect is the Council's digital innovation programme, which aims to provide customers with digital access to all council services 24/7, 7 days a week. As the streamlining of services progresses, this will release financial and other savings to meet budget pressures. Efficiencies from Customer Connect of £740,000 are included in the 2019/20 budget; this increases to £1.55m as a recurrent saving in 2020/21 and beyond. There are also expected to be indirect savings as a result of new ways of working, which have not yet been identified. The programme includes the preparation and implementation of a commissioning framework to review the need for services and to review how services should be provided, including decommissioning services where necessary.</p> <p>In Quarter One of 2019/20, the Council is reporting recurrent savings of £581,000 against the target of £740,000 from phase 1 of the programme, which was largely completed during May 2019. Phase 2 will be completed by the end of December 2019 and is expected to deliver the balance of the savings for 2019/20 and the recurring savings for 2020/21 onwards.</p> <p>Savings</p> <p>The Council has a good track record of delivering against its savings target. However, the forecast increasing budget gaps means that there needs to be continued focus on delivery of efficiencies. As well as using the commissioning framework to prioritise resources the Council is preparing a Commercial Strategy to ensure income is optimised and will explore further opportunities for joint working. The updated MTFP in February 2019, indicated that unless there are relevant earmarked resources, no revenue budget growth bids (including reductions in income) should be accepted for 2020/21 until all budget pressures are funded and the budget deficit is met.</p> <p>Conclusion</p> <p>Based on the review of the arrangements in place during 2018/19 for the compilation of the MTFP including identified savings, we concluded that the overall risk was sufficiently mitigated and that the Council has proper arrangements in this area. The Council can further enhance arrangements by:</p> <ul style="list-style-type: none"> • More detailed monitoring of the run rate on the use of its usable reserves. • Continuing to closely monitor the capital works with third parties so that corrective action can be taken sooner to prevent slippage.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017, which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following audit related services were identified:

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Subsidy return	£15,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,700 in comparison to the total fee for the audit of £43,005 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Council's policy on the allotment of audit related work to your auditors. None of the services provided are subject to contingent fees.

Action plan

We have identified one of recommendation as a result of issues identified during the course of our audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	<p data-bbox="188 472 229 504">●</p> <p data-bbox="317 465 1166 601">The final valuation report for all assets provided by Lambert Smith Hampton was received in May 2019. Prior to receipt of this final report, the various valuations had been communicated to the Council via email. The valuation of the lake assets was not communicated in this manner but included on the final valuation report.</p> <p data-bbox="317 608 1166 715">As no comparison of the final report was made with the valuation changes made on the asset register/ledger the revaluation of the lake assets had not been processed. This resulted in the overall asset value being understated in the draft accounts.</p>	<p data-bbox="1187 465 1922 515">A formal review of the final valuation report should be undertaken on an annual basis to ensure that all asset revaluations are captured.</p> <p data-bbox="1187 532 1446 554">Management response</p> <p data-bbox="1187 572 1922 651">Agreed, to include a reconciliation of the values provided by the Valuer with those required by the Council in its appointment letter and between the values received in year and the valuers final report</p>

Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
1 Other land and buildings Revaluation reserve		896 Dr 896 Cr	
2 Surplus on revaluation of assets Other comprehensive income and expenditure	896 Cr 896 Dr		
Overall impact	£0	£0	£0

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Disclosure – audit fee	Correction of the value of grants audit fees.	N/A	✓
Disclosure – various notes	Minor changes suggested in relation to a small number of notes to enhance the understanding for the reader.	N/A	✓

Impact of unadjusted misstatements

There are no unadjusted audit misstatements.

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	£43,005	TBC

Non Audit Fees

Fees for other services	Fees £'000
Audit related services:	
• Certification of Housing Benefits Subsidy return	15,700
	£15,700

Audit opinion

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

Independent auditor's report to the members of South Lakeland District Council Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of South Lakeland District Council (the 'Authority') for the year ended 31 March 2019 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
the Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

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

Audit opinion (continued)

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities 2018/19 the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Section 151 Officer. The Section 151 Officer 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the S151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Audit opinion (continued)

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

Report on other legal and regulatory requirements - Certificate

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

Use of our report

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

Signature

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

Glasgow
[Date]



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