



# The Audit Findings Report for South Lakeland District Council

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Year ended 31 March 2020

10 November 2020



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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 2020 for those charged with governance.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council with additional challenges of reopening services under new government guidelines.</p> <p>The Finance team have had to adapt to working remotely, with system access being aided by the introduction of a new server for home working and rollout of a new home working app.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit as detailed in our audit plan dated 2 September 2020. In the audit plan we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit teams have had to adapt to new remote access working arrangements. This has included the use of video calling and screensharing for the verification of completeness and accuracy of information produced by the entity, and information sharing through our cloud based software.</p> <p>The accounts were provided to us on 25 June 2020 and working papers have been provided throughout the audit. We have experience delays in receiving some of the information required due to competing demands on the Finance team's time, in addition to the arduous nature of remote working.</p>
<p><b>Financial Statements</b></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"> <li>• give a true and fair view of the financial position of the Council and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>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 was completed remotely during July-November. Our findings are summarised on pages 5 to 16. One adjustment to the primary financial statements has been made by management following a re-run of the actuary's report that resulted in a decrease in the fair value of pension plan assets and corresponding increase in net pension liability. This resulted in a £999,000 adjustment to the Council's Comprehensive Income and Expenditure Statement and Balance Sheet, in respect of the pension reserve and pension asset and liability position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of one prior year recommendation is detailed in Appendix B.</p> <p>Our work is substantially complete and at this stage there are no matters of which we are aware that would require modification of our audit opinion, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>• appropriate resolution of audit work in the areas listed on page 5;</li> <li>• receipt of management representation letter;</li> <li>• review of the final set of financial statements, AGS and Narrative Report.</li> </ul> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting property, plant and equipment valuation material uncertainties in respect of the Council's own assets and those in the Council's share of pension fund assets.</p>

# 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 2020 for those charged with governance.

<b>Value for Money arrangements</b>	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').	<p>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.</p> <p>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 17 to 22.</p>
<b>Statutory duties</b>	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>	<p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.</p>

## Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

# Audit approach

## 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 have been discussed with management.

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 controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 19 November 2020, as detailed in Appendix E. These outstanding items include:

- finalisation of our work on the valuation of land and buildings and investment properties;
- conclusion of our testing on journals;
- completion of our work on the valuation of the pension fund net liability following receipt of evidence from the pension fund auditor;
- closure of a small number of audit samples and procedures in relation to disclosure notes;
- resolution of any queries following the manager and audit partner's review of the audit file;
- receipt of management representation letter; and
- review of the final set of financial statements, AGS and Narrative Report.

## 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 levels remain the same as reported in our audit plan. These are detailed below.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,380,000	This equates to 2% of your gross operating expenditure for 2018/19 year and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.
Performance materiality	966,000	This is based on specific risks and sensitivities at the Council, such as the lack of deficiencies in control environment and quality of financial statements in prior years.
Trivial matters	69,000	This is the threshold for matters that are clearly inconsequential, whether taken individually or in aggregate.
Materiality for senior officers remuneration	5,000	This is due to its sensitive nature, with the value based on the salary bandings disclosed.

# Significant audit risks

## Risks identified in our Audit Plan

### Financial reporting and accounting implications relating to the Covid-19 pandemic

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates
- financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

## Auditor commentary

We worked with management to understand the implications of and the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 25 June 2020. We have also:

- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained using alternative approaches whilst working remotely;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and
- discussed with management the implications for our audit report.

The results of our work concluded that appropriate arrangements have been put in place to manage the Covid-19 situation and suitable disclosures have been made in the financial statements. This includes the use of alternative arrangements in the decision-making process as permitted by the Council Constitution. We were able to obtain sufficient audit evidence by utilising screensharing for the verification of completeness and accuracy of information produced by the Council, and share information through our cloud based software.

Due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with RICS Red Book Global). You have disclosed this material uncertainty within Note 4 of the financial statements. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.

Similarly, there is also an impact of Covid-19 on the valuation of the LGPS pension fund property assets. Cumbria's Local Government Pension Scheme's accounts include a material uncertainty around the valuation of pension fund's property assets and the auditor of Cumbria Pension Fund intends to include an emphasis of matter in their auditor's report in respect of the effects of Covid-19 on the valuation of its direct and indirect property holdings. Your financial statements disclosures have been updated within Note 4 to reflect this and our audit opinion will also contain an "emphasis of matter" paragraph in this respect.

# Significant audit risks

## Risks identified in our Audit Plan

### Improper recognition of revenue - 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.

We have rebutted this presumed risk for the other revenue streams of the Council because:

- other income streams are primarily derived from grants or formula based income from central government and tax payers; and
- opportunities to manipulate revenue recognition are very limited.

### 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 Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

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

## Auditor commentary

We have:

- evaluated the Council's accounting policy for recognition of income from fees and charges for appropriateness;
- gained an understanding of the Council'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.

Our audit work to date has not identified any issues in respect of revenue recognition.

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 policies, estimates or significant unusual transactions.

Our audit work to date has not identified any evidence of management over-ride of controls.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of land and buildings

The Council 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 numbers involved (£60.663m in the Council's 2019/20 accounts), and the sensitivity of this estimate to changes in key assumptions.

Additionally, management will need to ensure the carrying value in the Council's 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.

## Auditor commentary

The Council's valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.

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;
- written to the valuer to confirm 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, the Council's valuer's report and the assumptions that underpin the valuation;
- tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- evaluated the assumptions made by management for those assets not revalued during the period and how management has satisfied themselves that the carrying value is not materially different to the current value at year end.

Our audit work to date has not identified any issues in respect of valuation of land and buildings. However, we draw your attention to page 11 where we have raised a recommendation that management conducts a formal assessment of assets not revalued in the period going forward.

As disclosed on page 6, due to the potential impact that Covid-19 has on the value of your land and buildings at 31 March 2020, your valuer has disclosed a material valuation uncertainty within their valuers report (in line with RICS Red Book Global). You have disclosed this material uncertainty within Note 4 of the financial statements. We will reflect your disclosure within an "emphasis of matter" paragraph in our opinion. This is not a modification or qualification of the opinion and is consistent with other audited bodies where the valuer has highlighted a material valuation uncertainty.

# Significant audit risks

## Risks identified in our Audit Plan

### Valuation of pension fund net liability

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

The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£36.335m in the Council's 2019/20 balance sheet) and the sensitivity of the estimate to changes in key assumptions.

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

## 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 actuary 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;
- undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and
- obtained assurances from the auditor of Cumbria 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.

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

We draw your attention to page 10 regarding a national issue relevant to all local authorities to consider and assess how the result of the consultation on reforms to public sector pension schemes, and in particular the impact on last year's McCloud case, has impacted upon the valuation of the pension fund net liability and the pension reserve.

As disclosed on page 6, there is also an impact of Covid-19 on the valuation of the LGPS pension fund property assets. Cumbria's Local Government Pension Scheme's accounts include a material uncertainty around the valuation of pension fund's property assets and the auditor of Cumbria Pension Fund intends to include an emphasis of matter in their auditor's report in respect of the effects of Covid-19 on the valuation of its direct and indirect property holdings. Your financial statements disclosures have been updated within Note 4 to reflect this and our audit opinion will also contain an "emphasis of matter" paragraph in this respect.

## 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
<p><b>McCloud judgement</b></p> <p>In June 2019, The Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. This legal ruling around age discrimination had 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>Your financial statements were amended last year to reflect the impact of the judgement which saw an increase in past service costs of £608,000 and an increase in the total net liability of £608,000.</p> <p>Since summer 2019, MHCLG have been considering the changes necessary to remove the unlawful discrimination from LGPS regulations. In July 2020, draft amendments were issued for consultation. This consultation closed on 8 October 2020.</p> <p>Prior to the consultation, details of the case and the potential form of the eventual remedy were unknown. It was the firm's view that Authorities should consider the potential impact on their pension liabilities in consultation with their actuaries.</p>	<p>Management has reviewed the consultation and requested their actuary perform a review of the impact. A re-run of the actuary's report was obtained in August 2020, which resulted in a decrease in the fair value of pension plan assets of £999,000, and corresponding increase in net pension liability. The financial statements have been amended to reflect this later information.</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>
<p><b>IFRS 16 implementation has been delayed by one year</b></p> <p>Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/20 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.</p>	<p>Note 2 makes reference to IFRS16 and discloses the date of implementation and that the impact is likely to be material.</p> <p>We are satisfied that your disclosure is consistent with the requirements of IAS 8.</p>

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Other Land and Buildings – £60.663m</b>	<p>Other land and buildings comprises £21.452m of specialised assets such as leisure centres and recreation grounds, 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 (£39.211m) 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 assets as at 31 March 2020 on a four yearly cyclical basis. 29.4% of total assets were revalued during 2019/20.</p> <p>Management have considered the year end value of non-valued assets, and have not identified any material changes to the carrying value. 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 assets. The review confirms that existing valuations are still reasonable relative to material changes in property market conditions, change in usage or utilisation. For 2019/20, no additional assets have been revalued as a consequence of this review. This is supported by management monitoring the impact of Covid-19 on car park income, which heavily influences the car park's relative values, but there is currently no clear pattern that existing values are inaccurate. A refresh of the Kendal Parking Study is being undertaken to consider the impact of changes to usage and demand for parking.</p> <p>In addition to the rolling programme, any single asset exceeding 10% of the Council's total land and building asset value is revalued every other year to reduce the risk of non-valued assets. Management also review conditions that may impact non-valued assets, such as enhancements and obsolescence, and request for additional properties to be revalued if required.</p> <p>The total year end valuation of Other land and buildings was £60.663m, a net increase/decrease of £1.505m from 2018/19 (£59.158m).</p>	<p>The Council's accounting policy on valuation of land and buildings is included at Accounting Policy 14 to the financial statements.</p> <p><b>Key observations</b></p> <ul style="list-style-type: none"> <li>• In line with RICS guidance, LSH has identified a material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic. Management have disclosed this as a major source of estimation uncertainty in Note 4 to the financial statements.</li> <li>• We assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate.</li> <li>• The underlying information and sensitivities used to determine the estimate was considered to be complete and accurate.</li> <li>• The valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates.</li> <li>• We have uplifted assets not revalued in the period using Gerald Eve indices and considered management's assessment that there has been no material changes to the valuation of land and buildings not revalued in year.</li> <li>• We consider the level of disclosure in the financial statements to be appropriate.</li> </ul> <p><b>Conclusion</b></p> <p>We are satisfied that the estimate of your land and buildings valuation is not materially misstated, subject to resolution of queries outstanding with the valuer. However, we would recommend that management conducts a formal assessment of assets not revalued in the period going forward and have raised a recommendation for this in the Action Plan at Appendix A.</p>	

## 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 estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment																								
<b>Net pension liability – £36.335m</b>	<p>The Council's net pension liability at 31 March 2020 is £36.335m (PY £37.936m) comprising the Cumbria Local Government Pension Scheme benefit 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 as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £4.559m net actuarial gain during 2019/20.</p>	<p>In understanding how management has calculated the estimate of the net pension liability we have:</p> <ul style="list-style-type: none"> <li>assessed the use of a management's expert actuary;</li> <li>assessed the actuary's calculation approach;</li> <li>used PwC as auditors expert to assess actuary and assumptions made by the actuary (see table below);</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.4%</td> <td>2.3% - 2.4%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.2%</td> <td>2.1% - 2.2%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.6%</td> <td>3.35% - 3.6%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.2 / 22.6</td> <td>22.5 – 24.7 / 20.9 – 23.2</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>27.1 / 25.2</td> <td>25.9 – 27.7 / 24.0 – 25.8</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>assessed the completeness and accuracy of the underlying information used to determine the estimate;</li> <li>undertook a reasonableness test of the Council's share of LGPS pension assets;</li> <li>assessed the reasonableness of the movement in the estimate; and</li> <li>assessed the adequacy of disclosure of estimate in the financial statements.</li> </ul> <p><b>Conclusion</b></p> <p>We are satisfied that the estimate of your net pension liability is not materially misstated, subject to receipt of assurances from the auditor of Cumbria Pension Fund.</p>	Assumption	Actuary value	PwC range	Assessment	Discount rate	2.4%	2.3% - 2.4%	●	Pension increase rate	2.2%	2.1% - 2.2%	●	Salary growth	3.6%	3.35% - 3.6%	●	Life expectancy – Males currently aged 45 / 65	24.2 / 22.6	22.5 – 24.7 / 20.9 – 23.2	●	Life expectancy – Females currently aged 45 / 65	27.1 / 25.2	25.9 – 27.7 / 24.0 – 25.8	●	●
Assumption	Actuary value	PwC range	Assessment																								
Discount rate	2.4%	2.3% - 2.4%	●																								
Pension increase rate	2.2%	2.1% - 2.2%	●																								
Salary growth	3.6%	3.35% - 3.6%	●																								
Life expectancy – Males currently aged 45 / 65	24.2 / 22.6	22.5 – 24.7 / 20.9 – 23.2	●																								
Life expectancy – Females currently aged 45 / 65	27.1 / 25.2	25.9 – 27.7 / 24.0 – 25.8	●																								

## 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 – matters discussed with management

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

Significant matter	Commentary
Significant events or transactions that occurred during the year.	The most significant events that occurred during the year was the Covid-19 pandemic. During the audit we have considered the Council's response to addressing the challenges arising from Covid-19. The results of our work concluded that appropriate arrangements have been put in place to manage the Covid-19 situation and suitable disclosures have been made in the financial statements. See page 6 for further detail.
Business conditions affecting the Council, and business plans and strategies that may affect the risks of material misstatement.	<p>In line with RICS guidance, LSH has identified a material uncertainty regarding the valuation of land and buildings due to market uncertainty arising from the Covid-19 pandemic. Management have disclosed this as a major source of estimation uncertainty in Note 4 to the financial statements</p> <p>The LGPS auditor has reported a material uncertainty around the valuation of the pension fund's property assets and Cumbria's LGPS auditor intends to include an emphasis of matter in their auditor's report in respect of the effects of Covid-19 on the valuation of its property holding. After discussion, management has also included this as a major source of estimation uncertainty in Note 4 to the financial statements.</p>
Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	None to report.
Other matters that are significant to the oversight of the financial reporting process.	None to report.

# 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 an assessment of going concern which highlights a number of factors that have been taken into consideration. This includes liquidity and debt ratios, the MTFP, consideration of government policy and legislative changes, working capital and cashflow, and risk management.

Detailed cashflow forecasts have been prepared to support this assessment covering the period from October 2020 to November 2021.

### Work performed

Management have provided us with a written assessment of going concern which we have reviewed in conjunction with the MTFP and cashflow forecasts.

## Auditor commentary

Management has concluded that the use of the going concern basis is appropriate. The assessment was updated during the audit to reflect the developments arising from the Covid-19 pandemic.

### Key observations

- Management processes for considering the applicability of the going concern basis are appropriate and proportionate to the Council's circumstances.
- Cashflow projections and the MTFP demonstrate the Council has sufficient liquidity to meet liabilities as they fall due for at least the next 12 months.
- The MTFP forecasts achievement of the budget as at 31 March 2021, however the Council will need to find revenue savings of between £1m and £1.5m to set a balanced budget for 2021/22.

### Our work included:

- Determining whether the conclusion made by management regarding the decision not to disclose any going concern material uncertainties in the financial statements was prudent and appropriate.
- Reviewing management's assessment with regard to the national context and assessed the underlying assumptions used to support management's preparation of the accounts on a going concern basis.
- Reviewing cashflow forecasts up to November 2021 to assess the existence of any material uncertainties related to going concern.
- Determining if there are any events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

## Concluding comments

Based on the audit work performed on the going concern assumption adopted by management, we are satisfied that it remains appropriate for the Council to prepare accounts on a going concern basis as at 31 March 2020. We do not consider there to be a material uncertainty which would cast doubt on the Council's ability to continue as a going concern.

## Other matters for communication

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	Auditor commentary
<b>Matters in relation to fraud</b>	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.
<b>Matters in relation to related parties</b>	Minor amendments have been made to the related party disclosure note following out audit work, however, we are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation has been requested from the Council, which is included in the Audit Committee papers. Specific representations have been requested from management in respect of the unadjusted misstatement relating to the year end debtor balance as show in Appendix C.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to bank and investment counterparties. This permission was granted and the requests were sent. To date there is one outstanding request, and alternative procedures will be undertaken on this balance if required. All remaining requests were returned with positive confirmation.
<b>Disclosures</b>	Our review found no material omissions in the financial statements other than the pensions adjustment following the re-run of the actuary's report highlighted on page 10 and Appendix C. A small number of disclosure, presentational and consistency amendments have been made to the financial statements arising from the audit.
<b>Audit evidence and explanations/significant difficulties</b>	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 5.

# Other responsibilities under the Code

Issue	Commentary
<b>Other information</b>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement 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, however, our feedback on the narrative report suggested some minor changes, including clarification of the summary of financial performance table against the narrative, which the Council has incorporated as appropriate.</p> <p>We plan to issue an unmodified opinion in this respect – refer to Appendix E.</p>
<b>Matters on which we report by exception</b>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>A few minor adjustments were made to the AGS to enhance disclosure, however, we are satisfied with the updated AGS and have nothing else to report on these matters.</p>
<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>Note that work is not required as the Council does not exceed the £500m reporting threshold.</p>
<b>Certification of the closure of the audit</b>	<p>We intend to certify the closure of the 2019/20 audit of South Lakeland District Council in the audit report, as detailed in Appendix E.</p>

# Value for Money

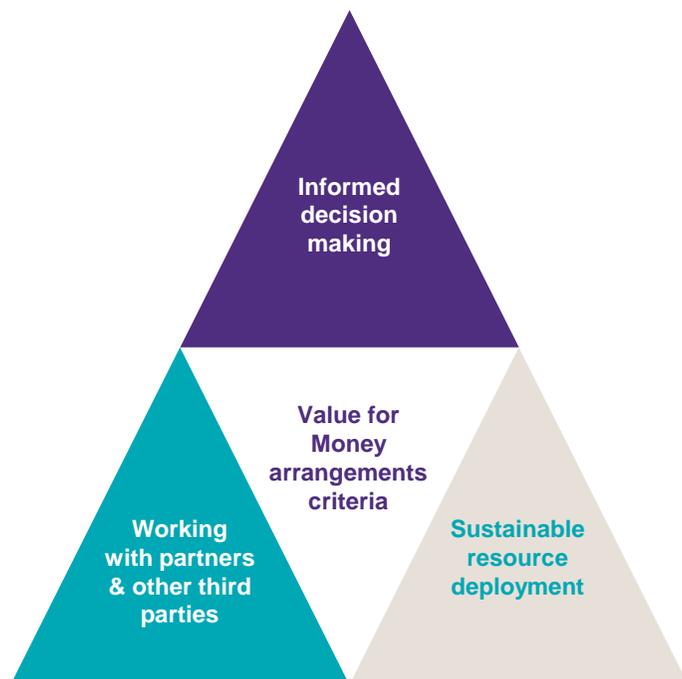
## Background to our VFM approach

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 April 2020. 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 April 2020 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 2 September 2020.

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 have not identified any new VfM risks in relation to Covid-19, as we do not consider Covid-19 to be a significant risk for 2019/20 given the date of the pandemic.

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:

- Council's outturn position against budget for 2019/20;
- Robustness of the Council's 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 19 to 22.

## 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 report, which confirms this can be found at Appendix E.

## Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

## 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.

# Value for Money

## 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	Conclusion
<p><b>Financial sustainability including arrangements around the Medium Term Financial Plan (MTFP) and delivery of Customer Connect</b></p> <p>The Council's MTFP is predicated on delivering changes to the way in which services are delivered. The Council has identified proposals for reducing spending and increasing efficiency. The MTFP includes a number of key projects, including the new operating model for the Council under the Customer Connect programme.</p> <p>SLDC has a strong history of financial control, however the Council will face a challenging environment in the short to medium term. The MTFP 2020/21 to 2024/25 projects an annual revenue surplus total of circa £47,000 in 2020/21 but this is a one-year only surplus with a projected deficit for £0.9m in 2021/22 rising to circa £2.7m by 2024/25. The projections are heavily reliant on the delivery of the Customer Connect programme, which has substantially reduced future budget deficits.</p> <p>There are considerable uncertainties over various revenue streams in the medium term due to the uncertainty around the future of the Business Rates Retention Scheme and the reliance on Customer Connect efficiencies. As a result the Council has to apply a number of estimates and key judgements to compile the MTFP.</p>	<p><b>2019/20 Outturn and delivery of Customer Connect</b></p> <p>The Council largely delivered against an ambitious budget in 2019/20, reporting a small overspend on the General Fund of £89,000 arising from Covid-19 costs and income reductions incurred in March 20. This outturn position included the delivery of £735,000 of Customer Connect savings in-year, through implementation of the Council's new operating model in January 2020.</p> <p>As communicated to the 24 June 2020 Cabinet, the main driver of the 2019/20 outturn position was a staffing underspend of £90,000 before carry-forwards, achieved through delivery of the £740,000 Customer Connect savings target and the 4% vacancy allowance built into the 2019/20 working budget. This outturn position aligns to the forecast outturn position reported to Cabinet throughout 2019/20, demonstrating clear articulation and delivery against a set of core financial objectives and implementation of robust financial control.</p> <p>The 2019/20 outturn position includes a number of over/underspends at a service level, which have been subject to £1.206m of approved carry-forward expenditure into 2020/21, funded through adjustments to planned reserve usage. The most significant carry forward request related to the training and Ignite contract element of the Customer Connect programme of £875,000, which has slipped into 2020/21 due to Covid-19.</p> <p>The net service position includes £188,000 savings relating to the Council's insurance costs arising from a re-tendering exercise, which has helped to mitigate overspends in Kerbside recycling of £206,000 and shortfalls against income generation targets for Car Parking of £97,000 due to Covid-19, the Caravan Site of £83,000 and sales of recycling materials of £130,000.</p> <p>In regards to delivery of its Capital Programme, the Council reported a significant underspend of £3.167m (44%) against its 2019/20 budget of £7.241m. Slippages are largely focussed on grant funded projects where the Council is reliant on partner organisations for delivery. The Council has attempted to mitigate its potential exposure to clawbacks from grant funding bodies through initiating dialogue to obtain approvals for re-profiling expenditure into future years.</p> <p>At present, the Council's risk appetite means that delivery of the revenue budget side of the MTFP is not heavily dependent on the Capital programme. However, with planned capital expenditure of £34.826m approved for the period 2020/21 to 2021/22 at the February 2020 Cabinet. The Council should aim to learn lessons from previous capital projects and continue to review its capital programme spend profile in the context of Covid-19 to ensure it still meets its corporate objectives.</p>	<p>Based on the review of the arrangements in place during 2019/20 for the compilation of the MTFP including delivery of the Customer Connect programme, we concluded that the overall risk was sufficiently mitigated and that the Council has proper arrangements in this area.</p> <p>We refer to Appendix A for our recommendation that the Council carries out a post-implementation review of the Customer Connect programme, with findings from this review being used to inform future governance and financial management arrangements around the significant saving schemes required to meet the financial challenges arising from Covid-19.</p> <p><b>Management response</b></p> <p><i>Agreed: Officers were preparing the post-implementation review as this audit was undertaken but work on the report has been paused as the Council has been required to respond to a new Covid-19 lockdown with new support packages to be</i></p>

# Value for Money

## Significant risk

**Financial sustainability including arrangements around the Medium Term Financial Plan (MTFP) and delivery of Customer Connect**

## Findings

### 2019/20 Outturn and delivery of Customer Connect (cont.)

Total usable reserves at 31 March 2020 have increased to £26m against the balance as at 31 March 2019 of £24.529m. The Council's General Reserves stand at £6.443m, inclusive of a working balance of £1.5m and a general reserve balance of £4.943m. This General Reserve balance is £1.063m higher than the Risk Based Reserve balance proposed in the Council's February 2020 MTFP update, which was produced before the Covid-19 pandemic.

Overall, the Council's 2019/20 outturn demonstrates that it is able to deliver ambitious transformation programmes. Given its heavy reliance on income generation to deliver a balanced budget, the Council will need to undertake further transformation to meet its medium term shortfall. In this context, our action plan in Appendix A contains the following recommendation:

- The Council should carry out a post-implementation review of the Customer Connect programme, to ensure the benefits articulated in the original business case have been delivered against and to identify areas where the governance and financial management arrangements over savings delivery can be further strengthened.

### Medium Term Financial Plan and impact of Covid-19

The MTFP for 2020/21 to 2024/25 approved by Council in July 2019 and updated in February 2020, demonstrated that appropriate steps were being taken to ensure a balanced budget position was maintained despite considerable uncertainties around future Government funding.

The key source of uncertainty for the majority of 2019/20 in relation to compiling and maintaining the MTFP related to assumptions around income from business rates from April 2020 when the current multi-year settlement was due to end. The MTFP produced in July 2019 clearly articulated this uncertainty and prudently assumed the level of annual reductions in Government funding since 2013 would continue from April 2020. It also quantified that income retained by the Council from 2020/21 could vary by around 30% or £900,000 per annum.

This created a potential upside within the 2020/21 financial position, which was realised when the Government announced a one-year local government finance settlement that left the Council with additional 2020/21 income of £1m more than previously anticipated. This combined with a 2% increase in Council Tax, enabled the Council to set a balanced budget for 2020/21 in February 2020, with a small revenue surplus anticipated in the first year of the MTFP.

## Conclusion

*delivered to businesses and residents in the district. It is expected the report will now be produced early in the new year.*

# Value for Money

## Significant risk

**Financial sustainability including arrangements around the Medium Term Financial Plan (MTFP) and delivery of Customer Connect**

## Findings

### Medium Term Financial Plan and impact of Covid-19 (cont.)

However, the February 2020 MTFP acknowledged that this one-off income boost would not mitigate budget gaps that were anticipated to increase from a £943,000 deficit in 2021/22 to a £2.778m deficit in 2021/22.

Key assumptions underpinning the MTFP remained prudent throughout 2019/20 and were based on a continuing desire to exercise strong budgetary control over Council Services. These key assumptions included a projected 2% pay award, maintaining a 4% vacancy factor within workforce budgets, inflationary growth in contract expenditure and inflationary growth in service income. These assumptions were subject to sensitivity analysis and scenario planning that modelled an additional 1% change in key assumptions.

A further way that the Council has responded to and sought to manage key uncertainties in its MTFP is through determining an appropriate level of general reserves, based on a range of reasonably possible risks that the Council may face over the medium term. The February 2020 MTFP determined the level of financial exposure facing the Council to be £10.325m, with a recommended Risk Based Reserve Balance of £5.380m (50%) to be maintained throughout the MTFP period.

Whilst these assumptions were based on best estimates at the time, they did not account for the potential impact of a global pandemic. The Council has rapidly responded to the pandemic, updating its MTFP in July 2020 to model the significant changes to the financial environment that it will need to operate in as it continues to respond to, and plan for the aftermath of, an unprecedented global pandemic. Projections reported to Cabinet in July 2020, quantified that the Council will need to find revenue savings of between £1m and £1.5m to set a balanced budget for 2021/22. Further recurring savings of £1m will need to be identified by February 2022.

The Council's latest projections at July 2020 suggest a total cost of Covid-19 to the Council of £9m over the 5-years covered by the financial plan, of which it is expected that £3m will be offset by Government grant. The remaining £6m will need to be met initially from reserves and, in the longer term, from savings elsewhere in revenue budgets.

As at July 2020, it is currently expected that the Council will need to use between £1.5m and £2m of General Reserve in 2020/21 to offset the costs of Covid-19. The Council's MTFP as at July 2020 assumes the levels of reserves are restored by the end of the 5-year model.

## Conclusion

# Value for Money

Significant risk	Findings	Conclusion
<p><b>Financial sustainability including arrangements around the Medium Term Financial Plan (MTFP) and delivery of Customer Connect</b></p>	<p><b>Medium Term Financial Plan and impact of Covid-19 (cont.)</b></p> <p>Overall, actions taken by the Council during 2019/20 ensured that it entered the Covid-19 pandemic with levels of reserves informed by a robust MTFP that adequately identified and attempted to mitigate a number of key known risks and uncertainties. However, like all other organisations, the Council was unable to reasonably plan for a global pandemic within its current MTFP process. As the Council is heavily exposed to heavy reliance on car parking and other leisure related income to deliver its financial objectives, the impact on future revenue streams needs very close monitoring and management to maintain the Council's financial health.</p> <p>Given the scale of anticipated budget deficits arising over the medium-term due to Covid-19, we again refer to our action plan in Appendix A, which contains the following recommendation:</p> <ul style="list-style-type: none"> <li>• The Council should continue to closely monitor and report on the ongoing impact of Covid-19 on its financial health, including sensitivity analysis of various scenarios and impact on future revenue streams.</li> </ul>	

# 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 May 2020, which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

### 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 which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Certification of Housing Benefit Claim	20,485 (2018/19) 26,400 (2019/20)	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 £20,485 (2018/19) and £26,400 (2019/20) in comparison to the proposed fee for the audit of £50,505 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.
		Self review (because GT provides audit services)	To mitigate against the self review threat, the timing of certification work is done after the audit has been completed. In addition, the self review threat is minimised, as materiality of the amounts involved to our opinion and the unlikelihood of material errors arising are low, and as the Council has informed management who can decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

These services are consistent with the Council's policy on the allotment of audit related work to your auditors. All services have been approved by the Audit Committee. None of the services provided are subject to contingent fees.

# Action plan

We have identified four recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 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
 <b>Medium</b>	As part of our work on related party transactions, we identified several directorships on Companies House which were not shown on member and officer declarations of interest. No potential relationships or material transactions were identified that were previously undisclosed, however, it is advised that this control be incorporated going forward.	Carry out periodic Companies House directorship searches to enhance controls around the identification of related party transactions.  <b>Management response</b> <i>Agreed: all relevant officers and members will be reminded of the requirements for declarations of interest and periodic searches will be carried out.</i>
 <b>Medium</b>	Management have considered the year end value of land and buildings not revalued in the period, and have not identified any material change to the carrying value. However, a formal assessment is not undertaken which would provide assurance that the carrying value is not materially different to the current value at year end. This would also highlight if further assets outside the rolling programme or material assets review require revaluation in year.	Conduct a formal assessment of assets not revalued in the period to gain assurance that the carrying value is not materially different to the current value at year end.  <b>Management response</b> <i>Agreed: the procedures for 2020/21 and future years accounts will be amended to incorporate this step.</i>
 <b>Medium</b>	The Council's 2019/20 outturn demonstrates that it is able to deliver ambitious transformation programmes. Given its heavy reliance on income generation to deliver a balanced budget, the Council will need to undertake further transformation to meet its medium term shortfall.	Carry out a post-implementation review of the Customer Connect programme, to ensure the benefits articulated in the original business case have been delivered against and to identify areas where the governance and financial management arrangements over savings delivery can be further strengthened.  <b>Management response</b> <i>Agreed: the review was underway with a draft report prepared in October 2020 during this audit but work on the report has been paused as the Council has been required to respond to a new Covid-19 lockdown with new support packages to be delivered to businesses and residents in the district. It is expected the report will now be produced early in the new year.</i>

## Controls

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

# Action plan

## Assessment

## Issue and risk



Medium

Overall, actions taken by the Council during 2019/20 ensured that it entered the Covid-19 pandemic with levels of reserves informed by a robust MTFP that adequately identified and attempted to mitigate a number of key known risks and uncertainties. However, like all other organisations, the Council was unable to reasonably plan for a global pandemic within its current MTFP process. As the Council is heavily exposed to heavy reliance on car parking and other leisure related income to deliver its financial objectives, the impact on future revenue streams needs very close monitoring and management to maintain the Council's financial health.

## Recommendations

Continue to closely monitor and report on the ongoing impact of Covid-19 on its financial health, including sensitivity analysis of various scenarios and impact on future revenue streams.

### Management response

*Agreed: regular reports have been prepared for Cabinet and Audit Committee on the risks and financial consequences of Covid-19 including the MTFP, the quarterly Finance Update reports and the quarterly performance monitoring reports. Car park income is particularly closely monitored and the Kendal Parking Study undertaken during 2019/20 will be refreshed to reflect changes in parking behavior and demand.*

## Controls

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

## Follow up of prior year recommendation

We identified the following issue in the audit of South Lakeland District Council's 2018/19 financial statements, which resulted in one recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>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>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>The Council has completed a review of the total of assets valued by LSH per the fixed asset register against the total on the Schedule of Values in the LSH Asset Valuation Report. This identified a trivial difference of £1 due to roundings on one asset. Assurance therefore gained that all valuations have been captured and processed.</p>

### Assessment

- ✓ Action completed
- X Not yet addressed

# 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 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000
<b>McCloud judgement</b>	999	999	999
The Council has reviewed the consultation and requested the actuary perform a review of the impact. Re-run of the actuary's report in August 2020 resulted in a decrease in the fair value of pension plan assets of £999,000, and corresponding increase in net pension liability.	Remeasurement of net defined benefit pension liability	Unusable reserves (999) Net pension liability	
<b>Grant receipts in advance</b>		733	Nil
It was identified that £733,000 of the balance consists of advances from MHCLG for flood and council tax grants relating to Storm Desmond in December 2015. The full amount received for these has not been utilised and as the Council stopped issuing flood relief at the end of 2018/19, there is no additional relief to be funded going forward. It is expected that the balance will need to be repaid to MHCLG, therefore it is appropriate for the balance to be reclassified as creditors.		Grants receipts in advance (733) Creditors	
<b>Untaken absences reserves</b>		26	Nil
Adjustment to the untaken absences reserve of £26,000 was initially not taken through the MiRS. This also impacts the Balance Sheet and associated disclosure notes.		Usable reserves (26) Creditors	
<b>Overall impact</b>	<b>999</b>	<b>Nil</b>	<b>999</b>

# Audit adjustments

## 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.

Detail	Auditor recommendations	Adjusted?
Narrative Report	A small number of changes have been made to the Narrative Report including clarification of the summary of financial performance table against the narrative.	✓
Accounting Policies	Removal of contingent assets accounting policy as not material to the Council	✓
Cash Flow Statement	Amended to include adjustment in relation to REFCUS of £924,000. This is in relation to the 'Adjusted for investing and financing activities' and 'Other receipts from investing activities' lines.	✓
Note 4 Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty	<p>A number of amendments have been made as follows:</p> <ul style="list-style-type: none"> <li>- Removal of narrative on useful lives and NNDR appeals provision as these are not considered key sources of estimation uncertainty and are unlikely to be material</li> <li>- Sensitivity analysis added around the PPE valuation uncertainty</li> <li>- Investments and cash and cash equivalents narrative relocated to the financial instrument risk section within Note 26 Financial instruments</li> <li>- Pensions liability narrative updated to reflect pension property fund valuation material uncertainty as disclosed within Cumbria LGPS's financial statements.</li> </ul>	✓
Note 15 Officers' Remuneration and Exit Packages	Legal, Governance and Democracy Specialist (Monitoring Officer) added to senior officers salary disclosure as salary would be over £50,000 threshold if officer had been in post for the full year.	✓
Note 25 Leases	As part of the calculation for future minimum lease payments of operating leases, one pre-lease agreement was incorrectly included. The future minimum lease payments were therefore overstated by £329,000.	✓
Note 34 Related Parties	The amounts disclosed for South Lakes Housing did not include the VAT shelter element. Updated from £1.1m to £1.4m (2019/20) and £0.75m to £1.1m (2018/19).	✓
Annual Governance Statement	<p>A small number of changes have been made to the Annual Governance Statement as follows:</p> <ul style="list-style-type: none"> <li>- Enhancement of the key elements of the governance system disclosed</li> <li>- Update of text in relation to the impact of Covid-19 report that was due to go out in July</li> <li>- Inclusion of HoIA opinion and reference to the IA limited assurance report on contract management</li> </ul>	✓
Throughout the accounts	A number of miscellaneous minor amendments were made to the financial statements due to matters identified during the course of the audit. None of these are considered individually significant to warrant further disclosure.	✓

# Unadjusted misstatements

## Impact of unadjusted misstatements

The table below provides details of one adjustment identified during the 2019/20 audit which has not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on total net expenditure £'000	Reason for not adjusting
<b>Short term debtors</b>	292	(292)	292	<b>Management response</b>
One error identified in our sample testing whereby £212,000 of the DWP debtor balance disclosed was in fact received in year and should therefore not be classed as a debtor. The error extrapolates to a possible error of £292,000 based on the overall debtors population sample tested.	Cost of services	Short term debtors		<i>This error relates to the housing benefit subsidy claims for 2017/18 and 2018/19 where errors were identified as part of the audit process and subsidy repaid to the DWP but not charged to 2019/20. This adjustment is not regarded as material in the context of the value of the overall housing benefit paid of £14.6m and will be adjusted in 2020/21.</i>
<b>Overall impact</b>	<b>292</b>	<b>(292)</b>	<b>292</b>	

## Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2018-19 financial statements.

# Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Council Audit	£50,505	£TBC
<b>Total audit fees (excluding VAT)</b>	<b>£50,505</b>	<b>£TBC</b>

The fees reconcile to the financial statements:

- Fees per financial statements - £49,000
- Additional fees for adding Covid-19 as a significant risk - £1,500 (to be shown as separate line item in 2020/21 accounts in line with previous years)
- Total fees - £50,500

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Certification of Housing Benefit Claim	£26,400	£TBC
<b>Total non- audit fees (excluding VAT)</b>	<b>£26,400</b>	<b>£TBC</b>

At the date of accounts preparation, no fees for the above certification work had been quoted or letter of engagement issued, and therefore no fees were accrued. The above fees will be included in 2020/21 accounts as a separate line item, along with any additional fees agreed.

# Audit opinion

We anticipate we will provide the Council with an unqualified 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 2020 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Collection Fund Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; 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.

#### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Finance Lead Specialist and S151 Officer and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK,

and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

#### 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 Finance Lead Specialist and S151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Finance Lead Specialist and S151 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.

In our evaluation of the Finance Lead Specialist and S151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

#### Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings, investment properties and pension fund property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings, investment properties and the Authority's share of the pension fund's direct and indirect property investments as at 31 March 2020. As disclosed in Note 4, the outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's report and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

# Audit opinion

## Other information

The Finance Lead Specialist and S151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 Edition' 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, for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

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

- we 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 Finance Lead Specialist and S151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, 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 Finance Lead Specialist and S151 Officer. The Finance Lead Specialist and S151 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Finance Lead Specialist and S151 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 Finance Lead Specialist and 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 Committee 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

# Audit opinion

## 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 April 2020, 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 2020.

### 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 April 2020, 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 2020.

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

XX November 2020



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