Grant Thornton

The Updated Audit Findings for South Lakeland District Council

Year ended 31 March 2023

12 February 2024

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

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

Michael Green

Name: Michael Green
For Grant Thornton UK LLP
Date: 12 February 2024

1. 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 2023 for the attention of those charged with governance.

Financial Statements

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 give a true and fair view of the financial position of the Council and it's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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.

Our audit work was conducted remotely during July 2023 to February 2024. Our findings are summarised in section 2.

We have identified a number of adjustments to the financial statements that have resulted in a £15,853k adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Our work is complete and there are currently no matters of which we are aware that would require modification of our audit opinion (Appendix H) or material changes to the financial statements.

We have concluded that the other information to be published with the financial statements, it is consistent with our knowledge of your organisations and the financial statements we have audited.

Our audit report opinion is unmodified including an Emphasis of Matter paragraph highlighting the demise of the Council on 31 March 2023.

Our work on the Council's value for money (VFM) arrangements is complete and reported in the Auditor's Annual Report (AAR), issued alongside this report.

We have been able to satisfy ourselves that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: • Improving economy, efficiency and effectiveness; • Financial sustainability; and • Governance	We have completed our VFM work, which is summarised on pages 24 and 25 and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
Statutory duties	
The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We will certify the completion of the audit at the same time as we issue our audit opinion.
Significant matters	We identified IFRIC14 and the recognition of a pension asset as a new risk during the course of our work, as detailed on page 13 of this report.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council, especially the finance team, for their support in working with us to issue a timely audit opinion.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. We have not raised any value for money recommendations around the Council's use of borrowings.

2. Financial Statements

Overview of the scope of our audit

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

As 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 completed our audit of your financial statements and have issued an unqualified audit opinion following the Audit Committee meeting on 11 December 2023, as detailed in Appendix H.

Our opinion includes an Emphasis of Matter paragraph highlighting the demise of the organisation into the Westmorland and Furness Council from 1 April 2023.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff throughout the audit. Both your finance team and our audit team faced challenges this year, ranging from the ongoing impact of Local Government Re-organisation and additional associated testing/scrutiny, new issues and challenges in pension accounting due to the surplus and changes to the audit team.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan on 20 September 2023.

We set out in this table our determination of materiality for South Lakeland District Council.

	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	1,083,000	This equates to 1.9% of Council's gross operating expenditure for 2021/22 year. On receipt of the draft financial statements for 2022/23 we deemed it appropriate to retain the planning materiality figures. This level 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	812,000	This is based on specific risks and sensitives at the Council, such as the lack of deficiencies in control environment and quality of financial statements in prior years.
Trivial matters	54,000	This is the threshold for matters that are clearly inconsequential, whether taken individually or in aggregate.
Materiality for specific transactions, balances or disclosures - senior officer remuneration	5,000	This is due to its sensitive nature, with the value based on the salary bandings disclosed.

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Fraud in Revenue Recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. For the 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.	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 evaluate 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. Testing identified £121k of income and an associated debtor to the same value that was included in the financial statements in error. In investigating the error, we are satisfied that it is isolated in nature as it relates to a specific issue whereby a control account associated with the land charges IT system has not been cleared out each month as was supposed to happen. As such, management were unable to provide supporting evidence for the income and agreed the full balance of the sample was an error. Management have agreed to amend for this error by reducing both the debtors figure and fees and charges figure by £121k. Refer to appendix D for this audit adjustment. We did not identify any further issues to bring to your attention.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Management over-ride of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override 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 for the Council, which was one of the most significant assessed risks of material misstatement.	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. In performing the procedures above, we identified a population of journals to test using data analytic software to analyse journal entries and to split large batch journals into smaller sets of transactions that support targeted testing based on specific risk criteria. These criteria included: • Journals posted by senior management • Material post year end journals • Journals relating to Local Government re-organisation • S106 allocation journals Application of these routines and supplementary procedures identified a total sample of 32 journals to test. Our testing did not identify any evidence of management override of controls or fraud. Our work identified that the Finance Lead Specialist (S151 Officer) has the ability to post journals and has done so within the financial year. This heightens the risk of management override of controls including fraud. We have reviewed all of these journals and tested some in detail, gaining sufficient assurance to conclude that there are no instances of Fraud or mis-reporting. We note that this matter was reported in our prior-year audit findings report and that the journals identified above all relate to the period before the date of this reporting. We therefore consider the prior year recommendation to be resolved – refer to Appendix C. We did not identify any further issues.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
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, 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.	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 out to them and discuss with the valuer the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end. In performing the above procedures we have selected a sample of 21 land and building assets and 3 investment properties valued during the year to review in detail. **Land and buildings findings :** We have raised a recommendation in Appendix A for management to introduce a process to assess assets not revalued in year, to ensure their carrying value is not materially different to current value, using detailed analysis and the use of appropriate indices. This is a prior year recommendation brought forward that hasn't been resolved yet. Refer to appendix A and appendix C. Testing identified that for specialised assets valued on a depreciated replacement cost basis, the valuer had applied BCIS indices as at quarter two of 2023 rather than quarter one as would be expected. In evaluating the potential impact of this error, we calculated that this could result in an overstatement of assets of £114k. In addition, testing identified one instance of the valuer relying on outdated floor area information in calculating the asset valuation. Following identification of this finding, we extrapolated that the potential error in the full population could lead to an understatement in valuation of £376k. Management have not adjusted the financial statements for these findings on the basis that they are not material to the overall valuation or the financial statements as a whole and because they are based on extrapolations. We are satisfied that the carrying value of Council land and buildings at the balance sheet date is materially correct. Refer to our commentary in Appendix D on unadjusted misstatements. **Investment properties findings :** Within our sample testing, we identified one instance where the valuer had used budgeted rental income figures for an asset valuation in the absence of actual income values. Actual income figures were available shortly after the valuation was undertaken and it has been calculated that application of the updated figures would reduce the valuation by £540k. We have been able to confirm this is an isolated error as this was the sole Investment Property that was changing tenants during the year. Management have proposed not to correct for this error on the basis it is not material, refer to our commentary in Appendix D on unadjusted misstatements. We are satisfied that the carrying value of Council Investment Properties at the balance sheet date is materially correct. Recommendations arising from our work are included within the Action plan in Appendix A. No further issues have been identified.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Council's pension fund net liability/ asset position, as reflected in its balance sheet as the net defined benefit liability/ assets, represents a significant estimate in the financial statements. The pension fund net liability/ assets is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). However, for the first time since IFRS have been adopted the council has had to consider the potential impact of IFRIC 14 - IAS 19 -the limit on a defined benefit asset. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.5% change in the discount rate assumption would have approximately 68% effect on the surplus and a 0.25% change in the inflation rate assumption would have approximately -37% effect on the surplus. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net surplus as a significant risk. At the time of completing the Audit Plan the Council had, in previous years, had a net liability. The latest triennial review has been completed on the pension fund and for 2022-23 the fund is now in surplus.	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/assets is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an 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/ asset position; • 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 performing any additional procedures suggested within the report; and • obtained assurances from the auditor of Cumbria Local Government Pension Scheme 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. Review of the net defined pension liability identified that the IAS 19 valuation for the year moved the position from a £30.6m net liability in 2022 to a £13.8m net asset at 31 March 2023. This is consistent with many local government schemes nationally and is the first time this has occurred since IFRS based financial statements have been produced. The reporting of a net asset position has required auditors to consider the requirements of IFRIC 14 and we discuss this in more detail on page 13. Pages 16-17 provide a detailed assessment of the estimation process for the valuation of the pension fund net liability. The assumptions used in calculating the net pension liability/surplus of both schemes are considered to be in line with expectations and at this stage we have not identified any issues with the estimation process. The auditor of Cumbria Local Government Pension Scheme identified that the overall pension scheme valuation provided to the actuary was £14.912m lower than the scheme valuation. As a result, the Council's share of pension fund net assets as at 31 March 2023 is understated by £670k with a corresponding overstatement of the pension liability. However, this would increase the pension surplus, which is capped at £nil under IFRIC 14 accounting, therefore there is no impact on the Authority's financial statements. Our work, other than the pension fund asset measurement and accounting, has identified some disclosure amendments which we have discussed with management and reported at Appendix D. Management has agreed to amend the financial statements to update these disclosures. We are satisfied that the carrying value of net defined benefit pension liability of the Council as at 31 March 2023 is materially correct and have not further matters to bring to your attention.

2. Financial Statements: Other risks

Risks identified in our Audit Plan	Commentary
Local Government Reorganisation (LGR) The Council will no longer exist after 31 March 2023 as it will form part of the new Unitary Council from 1 April 2023. This does present a number of other audit risks we will have to address as part of our 2022/23 audit, as follows: - heightened profile of the Council as a result of LGR will require us to revisit headline materiality for the whole audit; - ensure appropriate disclosures are made in the accounts, narrative report and AGS on LGR, which we will have to refer to in our audit report opinion; - assess impact of any key personnel changes on the audit - ensure we have considered fully any additional audit risks around year end cut-off on income and expenditure, movements in provisions and reserves - audit any additional exit packages.	In response to this risk we have: • reviewed headline materiality which we have done already and lowered it from 2% to 1.9% (refer to page 8); • ensured the disclosures on LGR are appropriate for the reader of the accounts and we will provide an emphasis of matter in our audit report (appendix H); • considered the impact of any key personnel changes especially in the Finance team and the impact it may have on the audit; • considered the impact of LGR on our testing of year-end income and expenditure cut-off and movements in provisions and reserves; and • made inquiries to determine number and test the accuracy of exit packages as well as confirming due process has been followed in seeking appropriate approvals in advance of any exit package payments being made. Transfer of data processing from the legacy SLDC system to the new Westmorland and Furness system has required us to invest time and resource in gaining an understanding of the new arrangements including multiple meetings with key finance personnel. Samples for income and expenditure completeness testing have been selected from reports run from both the legacy system and the new Westmorland and Furness Council system. Testing did not identify any matters to bring to your attention. Within our grant income testing we identified a number of errors relating to income from Cumbria County Council relating to reimbursements for LGR related expenses. Upon review, we identified that both Councils had accounted for these in the role of principal. Following discussion with management, it has been established that the relevant transactions should have been accounted for on an agency basis within the accounts of SLDC. The size of the error has been quantified as being £434k. Management have agreed to adjust the financial statements for this matter and the adjustment is reported in Appendix D. Review of the senior officer remuneration and exit packages identified that pension strain costs relating to one individual was understated by £18k due to an estimate being included in preparing the financial statements. Management have adjusted the amount within the exit packages note to reflect the actual cost and included this cost within the total remuneration for the relevant individual in the senior employees remuneration table. Refer to appendix D for this audit adjustment. No further issues have been identified.

2. Financial Statements: new issues and risks

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 deficiencies identified during the year.

Issue	Commentary	Auditor view
Valuation of LGPS pension surplus The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). However, for the first time since IFRS have been adopted the Authority has had to consider the potential impact of IFRIC 14 - IAS 19 -the limit on a defined benefit asset. Because of this we have assessed the recognition and valuation of the pension asset as a significant risk as the Council's draft accounts included a £13.8m pension asset for the LGPS.	IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments. IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. We have: • challenged management on the presentation of any pension asset; • received calculations from the management assessing any asset ceiling in place potentially reducing the amount of any asset recognised and reperformed those calculations; • challenged management on the assumptions used within that calculation; and • assessed the sufficiency of the financial statement disclosures provided in respect of the pension surplus.	The Council had not fully considered the potential impact of IFRIC14 before any audit challenge. Following discussion with management, the actuary has updated the IAS 19 valuation including consideration of the requirements of IFRIC14. The revised calculations have identified that the previously calculated asset should be limited to a credit ceiling calculated to be £nil. The financial statements have been adjusted to remove the £16.9m asset. The adjustment does not impact the useable reserves of the Council. The unfunded defined benefit pension liability of £3m remains included in the Balance Sheet. A management action has been raised in Appendix B regarding consideration of IFRIC 14 in future years. The adjustment referenced is included in Appendix D. .

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £65.593m and Investment property valuations £2.532m	Revalued other land and buildings comprises £18.372m of specialised assets such as leisure centres, 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 majority of the remainder of other land and buildings (£32.133m) are not specialised in nature, such as car parks and lake asserts, and are required to be valued at existing use (EUV) at year-end. The final remainder of other land and buildings (£3.455m) are not specialised in nature such as public offices and are valued at market value (MV) at year-end. The Council has engaged their internal valuers to complete the valuation of properties as at 31 March 2023 on a four yearly cyclical basis. 82% of total assets were revalued during 2022/23 (60% in 2021/22). (£53.960m of £65.593m) Management has considered the year-end value of non revalued assets (£11.633m), and has not identified any material changes to the carrying value. This is based on the 'Overall Assets Review' that management instruct their valuers 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 2022/23, some additional assets have been revalued as a consequence of this review. We have noted evidence of management scrutiny of this review via communications with the valuer, although management has not conducted its own assessment of assets not revalued. In addition to the rolling programme, any single asset exceeding 10% of the Council's total land and building asset value is revalued every 2 years to reduce the risk of non-valued assets carrying value being material different to their current value. We have carried out our own assessment and have not identified any material differences between current and carrying value. The total year-end valuation of other land and buildings was £65.593m, a net increase of £1.54m from 2021/22 (£64.053m).	The Council's accounting policy on valuation of land and buildings is included at Accounting Policy 13 to the financial statements and investment property is Accounting Policy 17. Key observations : - We assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate. - The underlying information and sensitivities used to determine the estimate was considered to be complete and accurate. - 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. - We have uplifted assets not revalued in the period using Montagu Evans indices and considered management's assessment that there has been no material changes to the valuation of land and buildings not revalued in year. - We consider the level of disclosure in the financial statements to be appropriate. See conclusion overleaf.	Light purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach (continued)	Audit Comments (continued)	Assessment
Land and Building valuations – £65.593m and Investment property valuations £2.532m	Investment properties comprises £1.921m of miscellaneous commercial assets, including the Braithwaite Fold caravan site, which have been valued on an income method at year-end taking into account current rental and other factors such as desirability of site. The remainder of investment properties (£0.611m) have been valued on market value with a higher level of valuer estimation required as there are fewer comparable transactions. Investment properties are all revalued in year in line with the IFRS Code, leaving no risk of material misstatement in respect of non-valued assets. The Council's internal valuers are also engaged to undertake investment property valuation. The total year-end valuation of investment properties was £2.532m, a net decrease of £0.009m from 2021/22 (£2.541m).	Conclusion : We have raised a recommendation in Appendix A for management to introduce a process to assess assets not revalued in year, to ensure their carrying value is not materially different to current value, using detailed analysis and the use of appropriate indices. This is a prior year recommendation brought forward that hasn't been resolved yet. Refer to appendix B and appendix C. We have completed our work in this area and identified a number of unadjusted misstatements detailed both on page 10 and in Appendix D.	Light purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension surplus – £13.815m	In the initial draft financial statements, the Council's total net pension surplus as at 31 March 2023 was £16.884m and a pension liability for the unfunded element of £3.069m (Combined surplus of £13.815m, PY combined deficit of £30.620m) comprising the Cumbria Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. The latest full actuarial valuation was completed in 2022. Given the significant value of the net pension fund surplus, small changes in assumptions can result in significant valuation movements. There has been a £74.250m net actuarial gain during 2022/23. This is mainly due a significant reduction in the present value of obligations (please see page 11 for more information)	We have: • deepened our risk assessment procedures performed including understanding management's processes and controls for the determination of the estimates. This included understanding methods, assumptions and data used, as well as instructions issued to management's experts and the scope of their work; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (PwC as auditor's expert) and performed additional procedures as suggested in the report (continued overleaf);	Light purple **We consider management's process is appropriate and key assumptions are neither optimistic or cautious**

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.8%	4.7 – 4.9%	●
CPI Inflation	2.7%	2.7%	●
Salary Growth	4.2%	3.95-4.20%	●
Increase in pensions in payment/deferment	2.8%	2.7%*	●
Life expectancy – Males currently aged 45/65	23.3 / 21.9 years	22.4-24.3 / 21.0-22.6	●
Life expectancy – Females currently aged 45/65	26.0 / 24.2 years	25.3-26.6 / 23.5-24.7	●

*For the pensions increase, as per PwC report, Mercer used a slightly lower rate for pensions increases in payment to allow for an inflation risk premium. This was deemed a reasonable approach as per PwC.

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension surplus – £13.815m	Refer to prior page	*Continued from prior page :* • assessed the competence, capability and objectivity of management's experts; • tested the completeness and accuracy of the underlying information used to determine the estimate; • 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; • considered the reasonableness of changes in estimated values based on all of the available evidence; and • considered the adequacy of the disclosure of the estimates in the financial statements. Detailed audit procedures identified that the pension asset should be capped at nil in line with IFRIC 14 accounting principles. Our audit work also identified that it is not appropriate to offset the net pension asset against the unfunded pension liability. The Council has adjusted for these items, the details of which are included in Appendix D. We have not identified any evidence to conclude that management's processes and key assumptions are not appropriate	Light purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Depreciation and useful economic lives of assets	Items of property, plant and equipment are depreciated over their remaining useful lives in a manner consistent with the consumption of economic or service delivery benefits. Freehold land is considered to have an infinite life and is not depreciated. Management's accounting policy is that property depreciation should be applied with a straight-line allocation over the life of the property, either as estimates by the valuer or through management's own assessment for assets not subject to revaluation.	We have: • reviewed the accounting policy; • recalculated the depreciation charge based on the useful economic lives as provided by the valuer as well as an overall recalculation of depreciation • assessed the reasonableness of the useful economic life for a sample of assets; and • assessed the appropriateness of the policy in line with financial reporting framework. We identified within the fixed asset register there were several assets which had negative useful lives within the RAM system. Although this did not lead to an error in the depreciation charge there should not be assets with a negative useful life. We have raised a recommendation within Appendix A for management to review the fixed asset register and consider all useful lives for assets and whether these need to be re-lifed. We did not find any further issues in respect of this significant estimate.	**Light purple** **We consider management's process is appropriate and key assumptions are neither optimistic or cautious**
Year-end provisions and accruals	Provisions : Management's only provision at year end was for NDR appeals provision of £182k (£156k in 2020/21). As this value is immaterial it is no longer considered a key estimate like we detailed in our Audit plan. The Council is responsible for repaying a proportion of successful rateable value appeals. The Council's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Accruals : Management have two individually material accruals and all accruals combined make up circa £6.8m (£2.6m in 2021/22) within the creditors balance. Management adopt the accrual basis of accounting, accruals are based on expenditure incurred that has not yet been paid or income due that has not yet been received. Accruals are based on principally known values, based on prior year figures or through the latest information available. Management has a de-minimus level, no accruals of a value less than £500 individually are included.	We have included accruals within our Creditors sample testing, for each tested accrual we have: • reviewed the accounting policy; • considered the appropriateness of the underlying information used to determine the estimate; • compared the estimate to actual income/expenditure received or paid after the preparation of the draft financial statements; • considered the impact of any changes to valuation method • where possible, compared the accrual to prior year values and methodology; and • considered the adequacy of disclosure of estimate in the financial statements. Within our creditors testing we identified a £39k error for an under-accrual of the Untaken absences for employee's annual leave not taken as at year end. We could not conclude this to be an isolated error as related to an incorrect posting of a journal, we have extrapolated this error up for the wider population with an extrapolated error of £71k. Management have opted to correct for the £39k known error and the remaining £32k is an unadjusted error, refer to Appendix D. We have not identified any further issues in relation to this estimate, incorporating this error identified we still consider management's process appropriate and key assumptions neither optimistic or cautious.	**Light purple** **We consider management's process is appropriate and key assumptions are neither optimistic or cautious**

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Credit loss and impairment allowance	The Council adopts the simplified approach to impairment, in accordance with the Code, and measures the loss allowance for trade receivables, contract assets and lease receivables at an amount equal to lifetime expected credit losses. For other financial assets, the loss allowance is measured at an amount equal to lifetime expected credit losses if the credit risk on the financial instrument has increased significantly since initial recognition, and otherwise at an amount equal to 12-month expected credit losses. Management have an allowance for credit losses of £2.46m (£2.32m in 2021/22), which is made up of the allowances for Council Tax, NDR and Sundry debtors.	We have: • reviewed the accounting policy; • Considered any changes in methodology to the prior year; • Reviewed the approach against the CIPFA 2022/23 code; • Considered the appropriateness of the underlying information used to determine the estimate; and • Agreed the approach and to management working papers. We have not identified any issues in relation to this estimate	**Light purple** **We consider management's process is appropriate and key assumptions are neither optimistic or cautious**
Grants Income Recognition and Presentation	The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal or agent, and if there are any conditions outstanding, as distinct from restrictions, that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant. Depending on whether the Grant is either a Revenue or Capital grant and whether there are conditions attached depend on where it gets accounted for. If the Council determines the grant is an agency grant then the figures flow through their separate Election bank account and the income is not included within the CIES. In 2022/23 the Council received funding of £11.1m (£42.7m in 2021/22) and distributed £5.1m (£37m in 2021/22) of Grants as an agent.	On a sample basis we have: • considered whether the Council is acting as the principal or agent which will determine how the Council recognises the grant; • considered the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income; • considered the impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES; • considered the adequacy of disclosure of judgement in the financial statements; and • reviewed and agreed management's prior period adjustment as outlined below. Refer to Appendix D where we have identified £434k of grants that had been included as principal when they should have been included as agency grants. During the audit it was confirmed that the Council was acting in the agent capacity for these grants. Management have opted to adjust for these and so are classed as an adjusted misstatement. We identified an error in relation to the section 31 grant, was initially included as a grant payable but should have been a grant receivable. The total value of the grant was £615k, however as it was recorded incorrected an adjustment for £1,231k was made to include it correctly. Refer to Appendix D for this audit adjustment. We did not identify any further errors.	**Light purple** **We consider management's process is appropriate and key assumptions are neither optimistic or cautious**

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £1.182m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. The year end MRP charge was £1.182m, a net increase of £0.207m from 2021/22. The MRP represents 4.76% of the Council's overall Capital Financing Requirement (4.1% in 2021/22). This is a measure of the pace at which charges to the General Funding revenue are being made to finance capital expenditure that has not been previously financed. The overarching requirement is for authorities to determine a "prudent" provision, rather than to follow a particular basis of calculation. If the MRP is too low, the burden of financing capital assets will fall on future generations of tax payers. We have concluded that the Council's MRP policy continues to be prudent and is sufficient to finance capital expenditure that has not previously been financed through the application of capital receipts, capital grants or direct revenue charges.	We have: • assessed whether the MRP has been calculated in line with the statutory guidance; • assessed whether the Council's policy on MRP complies with statutory guidance; • assessed whether any changes to the Council's policy on MRP have been discussed and agreed with those charged with governance and have been approved by full council; and • reviewed the reasonableness of the increase in MRP charge. Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation. We have considered the Council's MRP of 4.76% compared to a variety of Northern Local Authority bodies, and an MRP of 2% is considered "green" in a RAG rating, "red" being below 1.25%. Therefore the Council with 4.76% is a prudent provision and considered appropriate. We did not find any issues during our work on this judgement.	**Light purple** **We consider management's process is appropriate and key assumptions are neither optimistic or cautious**

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

				ITGC control area rating			
IT application	Audit Area	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Capital Integra	Financial reporting	ITGC assessment (design and implementation effectiveness only)	● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope	● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope	● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope	● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope	None

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is appended.
Audit evidence and explanations	All information and explanations requested from management was provided.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to bank and investment counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements: other communication requirements

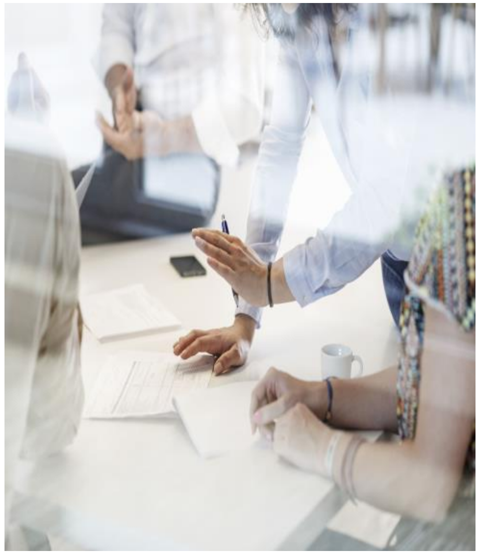
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • evidence that the services delivered by the Council during the 2022/23 year have been transferred and continue to be delivered by Westmorland and Furness Council, following Local Government Reorganisation • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment; and On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	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 the Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Following agreed amendments, no inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix H
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	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. The guidance for 2022/23 has now been issued by the NAO, and in line with previous years, the Council does not exceed the threshold required for the work. We will undertake the necessary procedures for bodies below the threshold by the necessary timescales.
Certification of the closure of the audit	We intend to certify the closure of the 2022/23 audit of South Lakeland District Council in the audit report, as detailed in Appendix H.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM: our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would issue their commentary on VFM arrangements by 30 September each year. A letter explaining the reasons for the delay is attached in Appendix I to this report.

This is in line with the National Audit Office's revised deadline, which required the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

4. 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 and consider that an objective reasonable and informed third party would take the same view. 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 E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

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

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefit Claim	28,170 (2022/23) 27,361 (2021/22)	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 £28k in comparison to the total fee for the audit of £84k* 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 completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.

**This is the draft 2022/23 audit fee, however these will be confirmed when the audit work is completed.*

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Council.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm, each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

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

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 5 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 2023/24 audit of the new Westmorland & Furness Unitary Council. 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
High - Significant effect on financial statements	**IFRIC 14, net pension asset** From discussions with the actuarial firms, we understand that the application of IFRIC 14 is not within their normal scope. As such, unless they are instructed otherwise by the employer, they will produce IAS 19 disclosures assuming there are no IFRIC 14 adjustments to any surplus or deficit. This means there is a risk that material adjustments are not factored into the IAS19 disclosures. Mercer have produced a surplus report for the Council however this doesn't go one step further to comment on the ceiling cap.	Instruct their actuary to calculate any potential asset ceiling under IFRIC14 where pension schemes are in surplus to ensure they are reflected in their IAS19 calculations and undertake managements' assessment of an asset ceiling. **Management response** The Actuary was instructed to carry out the asset ceiling calculation in late November 2023. The response has since been received and the financial statements adjusted.
High - Significant effect on financial statements	**Assets not revalued** Linked to our audit recommendation for the prior year, see Appendix B one of our recommendations was only partially implemented. We have carried forward the non-implemented part of this recommendation below. Management have not undertaken their own assessment of non revalued assets to consider whether their carrying value is not materially different to current value. Note that this is also a recommendation raised within the 2021/22 financial year that has not been resolved yet, we acknowledge that management have introduced greater scrutiny of the valuers assessment since the prior year but still no detailed analysis undertaken by management directly.	Introduce a process to undertake a detailed analysis of movement of assets not revalued in year, which includes the use of appropriate indices, to ensure carrying value is not materially different to current value. **Management response** The new Council will have a process of assessing the assets not revalued in the year to confirm that the balance sheet is materially correct.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High - Significant effect on financial statements	**Valuation approach** Through our findings in the land and building revaluations we identified instances of the valuer using incorrect BCIS indices, outdated floor plans and budgeted income figures when actuals were available. All these findings led to the valuations having a different outcome.	Ensure that the valuers are provided with the most up to date information for them to use within their valuations, and ensure valuer's data and assumptions are reviewed by management for reasonableness. **Management response** For 2023/24 Westmorland & Furness Council have engaged an external valuer to value land and buildings and are liaising with them to provide all necessary information.
Low - Best practice	**General – Fixed asset register** Through our audit work on depreciation and review of useful lives we identified some assets in the fixed asset register that had useful lives outside of the trend (eg some were negative and some were infinite when it was a building asset). Note that we have reviewed all assets useful lives as a high level check and these outliers did not impact on the depreciation calculations it is best practice to regularly maintain the fixed asset register.	Review the fixed asset register regularly for any outlying information to ensure this does not lead to errors in depreciation calculations and regularly review assets useful lives to ensure these are still appropriate for the Council's needs. **Management response** Westmorland and Furness Council is implementing a new asset register for the 2023/24 financial statements and this will be incorporated.
Low - Best practice	**Related Party Declarations** Not all members submitted an annual declaration of interest during the financial year. The risk around this is that members could intentionally not update management and this could lead to undisclosed related parties.	Ensure all members complete declarations annually. **Management response** For 2023/24 all non responses by Members will be followed up to ensure a 100% response rate.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in our 2021/22 audit of Council's financial statements, which resulted in four recommendations being reported in our 2021/22 Audit Findings Report. We have followed up on the implementation of our recommendations one is still to be addressed, all other recommendations have been addressed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Journals** Our work on journals identified that the Finance Lead Specialist (S151 Officer) has the ability to post journals and has done so within the financial year. Although we have sampled a few of these journals and not identified any instances of Fraud, this represent a weakness in the control environment which creates a heightened risk of management override of controls. **Recommendation** Revoke senior management's ability to post journals in the finance system.	Due to the timing of issuing the Audit Findings report for 2021/22 (issued in November 2022) the S151 officer had continued posting journals within the beginning of the 2022/23 financial year however after November 2022 no further journals were posted. So we consider this recommendation resolved.
X Carried forward into 2022/23 (See appendix B)	**Assets not revalued** Linked to our audit recommendation for 2020/21, one of our recommendations was only partially implemented. We have carried forward the non-implemented part of this recommendation below. Management have not undertaken their own assessment of non revalued assets to consider whether their carrying value is not materially different to current value. **Recommendation** Introduce a process to undertake a detailed analysis of movement of assets not revalued in year, which includes the use of appropriate indices, to ensure carrying value is not materially different to current value.	A more robust processed was planned to be implemented for the 2022/23 accounts to clarify the steps required for management to undertake their own assessment of carrying values on non revalued assets. In practice, due to staff vacancies, it has not been possible to implement this recommendation for 2022/23. In mitigation, reviews carried out by the in-house valuation team identified one material asset that required revaluation. Also the Council had previously increased the frequency of valuation of the largest assets to every 2-years rather than every 4-years.

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Missing asset disposals** Upon review of the infrastructure asset base management identified two assets related to Stockbeck Dam and Stockbeck drainage for a total closing balance value of £2.5m. These assets had ownership transferred to the Environmental Agency back in 2017. These assets should have been disposed of in 2017 upon date of transfer, however this was missed by management and the assets remained in the asset base. As the disposal was at nil proceeds there was no capital receipt to trigger a disposal and a lack of communication within the Council meant this was missed for multiple years. **Recommendation** Improve the processes within the Council for identifying all disposals of assets at nil proceeds to ensure all assets are still in the Council's ownership.	From around 2019 the Council now has a formal notification provision of advising all relevant services of the completion of any acquisition or disposal via a completion memo. A completion memo is circulated to the Estates team and Finance team (and other relevant services) each time a land transaction completes. Therefore, measures have been put in place to ensure that this particular situation does not arise again.
✓	**Service auditor's report** We were made aware that audited bodies that use Midland iTrent were being asked by iTrent to pay circa £5k for a service auditor's report. South Lakeland District Council did not obtain the service auditor's report for Midland iTrent, who process their payroll. We conclude that as management unable to obtain a service auditors report for their Midland iTrent payroll provider, so management are unable to confirm that the system they have in place is effective. **Recommendation** Either obtain the Service Auditor's report for Midland iTrent or utilise alternative methods to gain assurance that the controls in place at the service organisation are effective, to gain assurance over your employee remuneration figures.	There are a number of processes followed by the HR team and payroll team to ensure that input and outputs from the iTrent system are appropriate and accurate which gives management assurance instead of purchasing the service auditor's report. Internal audit also carry out regular reviews of the payroll function: this will now be increased to annual reviews.

Assessment

✓ Action completed

X Not yet addressed

D. 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Grant Income Grants incorrectly accounted for with the Council as principal	434 Cost of services (Grants and contributions - income) (434) Cost of services - expenditure		-
Net pension fund asset In line with IFRIC 14 when there is a net pension fund asset, the amount of any asset that the entity can recognise is limited to a ceiling which is the present value of those future benefits. In the initial draft financial statements the value of the asset was included at £13,814k, however this was made up of the full LGPS asset of £16,884k and the liability for the unfunded benefits of £3,069k. After management and Actuary assessment of the asset ceiling this resulted in the asset being capped at £nil and the unfunded benefit liability to be left in as per IAS19 only permitted offsetting where there is a legal right to use a surplus in one plan to settle obligations in another plan. As this is not the case, the unfunded benefit liability should remain and the asset should be capped at £nil.	16,884 remeasurements of net defined Benefit Pension Liability (other comprehensive income and expenditure)	(16,884) other long term liabilities	-
S31 grant and NDR Income The Council incorrectly recognised their Covid-19 Additional Relief Fund (CARF) Grant as a receivable as opposed to a grant payable to Central Government. The accrual of £615k had to be doubled to correct this in the CIES but only once within the balance sheet.	(1,231) Taxation and non-specific grant income	615 – debtors 615 – creditors	(1,231)

D. 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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Debtors Land charges control account error	121 cost of services (fees and charges)	(121) debtors	121
Creditors Under accrual of untaken absences and correction of amount incorrectly included in debtors	79 cost of services	(14) creditors (65) debtors	79
Reclassification of expenditure within cost of services No impact on the end gross expenditure cost of services figure however there was an adjustment made to reclassify £1,657k or expenditure from People Welfare to Places and Environment.	(1,657) People Welfare 1,657 Places and Environment		
Reallocation of the total finance lease liability between current and non-current liabilities In the draft financial statements management had all the lease liability in non-current, however following audit split the total into current and non-current as necessary.		278 Non current liabilities (278) Current liabilities	
Overall impact	15,853	(15,853) Net assets	(1,031)

D. 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.

Disclosure/issue/Omission	Adjusted?
Throughout whole financial statements Minor typographical changes, arithmetic errors and presentational changes.	✓
Narrative report As a result of the changes made in the audit adjustments section, the narrative report has been amended to remain consistent with the financial statements as well as some minor changes to date references and updates to the outturn report included within the narrative report.	✓
Reserves classification Adjustment to reclassify £1,162k of earmarked reserves to general fund reserves required in order to maintain working balance of £1.5m in the general fund as a result of other adjustments made to the financial statements.	✓
Note 5 Assumptions made about the future and other major sources of estimation uncertainty i. Some of the figures within the Arrears row were included at last year values and needed to be updated to current year values. ii. As a result of the pension asset figures changing this note was updated to remain consistent and include references to the pension asset ceiling	✓
Note 6 Material items of income and expense During the audit management identified a missing 2021/22 comparative from this note and has since included. This has no changes to the figures in the financial statements as this note draws out key areas of income and expenditure already included within the financial statements.	✓
Note 8 Transfers to/from Usable Reserves, Note 9 – Adjustments between Accounting Basis and Funding Basis under Regulations, Note 10 – Expenditure and Funding Analysis, Note 11 – Expenditure and Income analysed by Nature As a result of the changes made in the audit adjustments section : - note 8, note 9, note 10, note 11 was updated to be consistent with the updated primary statements	✓
Note 13 Agency Services Following the audit adjustment to remove £434k of grants initially included as principal to agent, note 13 was updated to remain consistent	✓

D. Audit Adjustments

Disclosure/issue/Omission	Adjusted?
Note 15 Officers' remuneration and exit packages a) It was identified the prior year column was incorrectly included as 12 and should have been 13 to agree to prior year financial statements. b) After the preparation of the draft financial statements management received the pension strain cost invoice for one senior officer and have opted to amend to reflect the updated value within note 15 due to the lower materiality threshold for senior officer remuneration, this an increase of £18k. This has been corrected within both the exit package and senior officer remuneration table. c) The figure for the 2022/23 pension contribution in the senior officer remuneration table for the Chief Executive did not include the pension strain costs, as per b) above this figure was increased by £18k, management have now included the full value for the pension strain within this table so it is consistent with the exit packages table.	✓
Note 16 External Audit Fee i. The fees payable for HB certification line of the note was incorrect and the value duplicated, since the drafting of the financial statements the 2022/23 HB fee has now been agreed so the note has been updated to reflect this. ii. The fees payables to the auditor line within the table should split between the scale fee and the additional 2021/22 fees iii. In the supporting paragraphs to the note there were references to the 2019/20 audit and Covid-19 so these have been removed as classed as historic iv. The presentation of this note has been amended to split the External Auditor fee and the Redmond Review grant up into two separate sections of the table for clarity	✓
Note 17 Grant Income The total grants and contributions credited to cost of services line in note 17 was incorrect, the formula omitted to include one of the balances within the table. This was an error of £139k within the note presentation. This did not impact the values in the financial statements and was only an error in the addition of the table within the disclosure. Do note that this disclosure has subsequently changed for audit adjustments earlier within Appendix D.	✓
Note 18 Property, plant and equipment i) Within the Revaluations table - We identified a number of misstatements within this table, in particular amendments to the lines of assets revalued in the year ended 2022 and the year ended 2023 as a result of subsequent asset revaluations. We also identified enhancements to the table to add in reconciling lines and notes so this table agrees back to the larger NBV table within note 18. ii) Below the Net book value table there was a historic reference to the risk as the market emerges from the Covid-19 lockdown which has been removed as no longer relevant.	✓
Note 25 Leases Within the finance leases, Council as Lessee breakdown all the balance for the present value of minimum lease payments was included in "between one year and five years". Management have now split this out correctly to supporting workings, and have corrected the current and non current split of liabilities in the Balance sheet to match.	✓

D. Audit Adjustments

Disclosure/issue/Omission	Adjusted?
Note 26 – Financial Instruments i) The money Market Fund short term deposits were showing in both investments and cash and cash equivalents. They have been removed from Cash and cash equivalents and now matches note 27. ii) As a result of audit adjustments made to debtors and creditors, note 26 has been updated to reflect these iii) The column headers in the Income, Expenses, Gains and Losses table were not visible in the initial draft statements so these have been expanded so they are visible iv) In the fair value of Assets and Liabilities not measured at fair value table the fair value for Current creditors for 2021/22 were showing as £0 instead of the figure per the audited prior year statements. This has now been updated.	✓
Note 27 – Cash and Cash Equivalents There was an addition error in the initial draft financial statements for the interest table, this has now been corrected. This was only an error in the disclosure and not the figures underneath.	✓
Note 28 Debtors and Note 29 Creditors As a result of audit adjustments detailed earlier in Appendix D these supporting notes have been amended to match the primary statements. In note 29 Creditors, at the time of drafting the financial statements management were not able to split the "other payables" into Grants received in advance, during the audit period management were able to split out and have since amended the split within Note 29.	✓
Note 33 – Unusable Reserves As a result of the audit adjustments earlier in Appendix D the Unusable reserves supporting tables were corrected. A. Untaken Absences Account and B Pensions Reserve were both amended to match the balance sheet. C. Capital Adjustment Account was also amended as a result of the audit adjustments for the accumulated absences.	✓
Note 35 – Defined benefit pension schemes i) Linked to the audit adjustments detailed earlier in Appendix D, after management had calculated the level of the asset ceiling of nil this was updated within the pension disclosure note. Management have included a reconciling line for the asset ceiling adjustment to result in the surplus being nil and retained the liability of £3.069m for the unfunded liability, to be consistent with the balance sheet and reserves note. Management have also included further narrative on the nature and need for this adjustment for the reader. ii) It was also identified in further tables in note 35, the sensitivity analysis table and some of the mortality assumptions were left as prior year figures. These have been amended to the current year figures and are consistent with the Actuary's IAS19 report.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 audit which have 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
Land & Building Valuations i. Incorrect quarter BCIS indices used within the valuations. Projected error of £114k, overstatement of asset values. ii. Historic and outdated floor areas used within the valuations. Projected error of £376k, understatement of asset values.	(262) - Surplus or deficit on revaluation of Non-Current Assets	262 - Property, Plant and Equipment	0	Management consider this to be immaterial to the financial statements
Investment Property Valuations Budgeted rental income figures rather than actual income figures.	540 - Financing and investment income and expenditure - Changes in fair value of investment property	(540) - Investment Property	0	Management consider this to be immaterial to the financial statements
Operating Leases management were unable to provide updated lease agreements or supporting evidence due to timescales. These have treated these as unevidenced errors that have been projected over the whole operating lease as lessor population.	245 Cost of services – Gross income	245 Reserves	245	Management consider this to be immaterial to the financial statements
Overall impact	33	(33)	245	

D. Audit Adjustments (continued)

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
IAS19 Net pension liability The valuation in the pension fund financial statements for 9 investment managers were understated by £12.648 million. For the impacted investment managers, an estimate had been used for the 31 March 2022 position, using known cash movements, as the actual 31 March 2022 valuation was not available prior to submission of the draft accounts for audit. The pension fund audit team subsequently independently obtained the valuations from the fund managers, which identified the difference. This has led to an understatement of the Council's share of the pension funds net assets. The pension fund auditor also identified an error in the investment return information submitted to the actuary, which partially offset this understatement. The net impact on the Council's pension liability would be £301k overstated.	301 Remeasurement of the Pension Liability	(301) Net pension fund liability 301 Unusable Reserves (Pensions Reserve)	301	Management consider this to be immaterial to the financial statements so have opted not to adjust. **Impact on 2022/23** Full valuation of the scheme obtained for 22-23 and therefore adjustments to get to the revised population are captured in the accounts and no continuing impact
Land & Buildings revaluations - We identified a typography error on the floor area used within the valuer's calculations for one asset, which resulted in an overstated valuation of £125k. - We challenged the valuer's obsolescence judgment for one asset and the value agreed that the allowance was too low. Using a more appropriate allowance agreed by both parties would have resulted in a valuation of £129k below the initial valuation, so the value was overstated. Combined misstatements are a total overstatement of Land and Buildings valuation of £254k.	(254) Other Comprehensive Income and Expenditure – Surplus on revaluation of Non-current assets	(254) Non current assets 254 Unusable Reserves (Revaluation reserve)	(254)	Management consider this to be immaterial to the financial statements so have opted not to adjust. **Impact on 2022/23** We have tested the two assets that had these unadjusted misstatements on in 2021/22 as part of our revaluations testing in 2022/23 and so auditor is satisfied no continuing impact.
Overall impact	47	-	47	

E. Fees and non-audit services

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

Audit fees	Proposed fee £
Scale fee published by PSAA	50,069
Reduced materiality	2,500
Value for Money audit – new NAO requirements	9,000
ISA 540	2,100
Additional journals testing	3,000
Infrastructure	1,000
Enhanced audit procedures for Payroll – Change of circumstances	500
Enhanced audit procedures for Collection fund – reliefs testing	750
Increased audit requirements of revised ISA 315	3,000
Local factors	1,000
Total fees as per audit plan	**72,919**
Addition fees for issues new for 2022/23	
IFRIC 14 – Net Pension Fund asset	4,000
Local Government Organisation and Cut off understanding and reworking of sample populations	4,000
Additional detailed testing and review on significant exit packages	1,000
Additional cost relating to number of identified adjustments and changes	2,500
Additional costs relating to multiple versions of the financial statements and delays	£1,250
Additional costs relating to issues identified with PPE valuations and ongoing discussions with the valuer	£2,000
Total audit fees (excluding VAT)	**£87,669**

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee
Audit Related Services	
Certification of Housing Benefit Claim	£28,170
Total non-audit fees (excluding VAT)	**£28,170**

The fees reconcile to the financial statements as follows :

- £110k fees per draft financial statements
- £(28)k HB certification fees included twice as duplicate
- £22k Redmond Review Local Audit fees Grant moved from fees payable to the External Auditor into a separate table within note 16
- £104k fees payable to External Auditor per note 16

*£14.75k of 2022/23 additional fees mentioned in earlier slide are not included within the 2022/23 financial statements as these have been raised in finalising the audit and are subject to formal approval by PSAA.

None of the above services were provided on a contingent fee basis.

This covers all services provided by us and our network to the Council, its senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Management Letter of Representation

South Lakeland District Council
Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of South Lakeland District Council for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards, and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include Valuation of Land & Buildings and Investment properties, Valuation of net pension fund liability, depreciation, year-end provisions and accruals, credit loss and impairment allowances.

We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

   vi. there are no unrecorded liabilities, actual or contingent

   vii. none of the assets of the Council has been assigned, pledged or mortgaged

   viii. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The Council's financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

G. Management Letter of Representation

xiv. We have updated our going concern assessment. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that :

a. the nature of the Council means that, notwithstanding any intention to cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

a. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

xv. The Council has complied with all aspects of ring-fenced grants that could have a material effect on the Council's financial statements in the event of non-compliance.

Information Provided

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the Council's financial statements.

Approval

The approval of this letter of representation was minuted by Westmorland and Furness' Audit Committee at its meeting on 11 December 2023.

H. Audit opinion

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report with an Emphasis of Matter highlighting the demise of the organisation into the Westmorland and Furness Council from 1 April 2023.

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of South Lakeland District Council (the 'Authority') for the year ended 31 March 2023, 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 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2023 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 2022/23; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Emphasis of matter – Demise of the organisation

In forming our opinion on the financial statements, which is not modified, we draw attention to note 2b to the financial statements, which indicates that the assets and liabilities of South Lakeland District Council will transfer to Westmorland and Furness Council on 1 April 2023.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Chief Finance 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 2022/23 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Chief Finance Officer with respect to going concern are described in the relevant sections of this report.

H. Audit opinion

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. The Chief Finance Officer is responsible for the other information. 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.

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 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 themselves. 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 in April 2020 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 '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 matters 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, 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 and the Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 23 of the financial statements, 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 Chief Finance Officer. The Chief Finance 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 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance 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 Chief Finance 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 they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

H. Audit opinion

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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972 and Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012).

We enquired of management and the Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to management override of control, in particular journals, management estimates and transactions outside the course of business. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud;
- journal entry testing, with a focus on material manual journals posted close to year end, material manual accrual journals posted at year end, any journals posted by unauthorised users and journals posted by senior management;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and building and investment property valuations, defined benefit pension liability valuation and depreciation; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including potential for fraud in revenue recognition, significant accounting estimates related to property, plant and equipment and Pension valuations. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

H. Audit opinion

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

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

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.

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 undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of South Lakeland District Council for the year ended 31 March 2023 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 44 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.

I. Audit letter in respect of delayed VFM work

Chair of Audit Committee

Westmorland and Furness Unitary Council

In respect of South Lakeland District Council

Sent by email

28 September 2023

SLDC – 2022/23 VFM Commentary

Dear Cllr Coles

The original expectation under the approach to VFM arrangements work set out in the 2020 Code of Audit Practice was that auditors would follow an annual cycle of work, with more timely reporting on VFM arrangements, including issuing their commentary on VFM arrangements for local government by 30 September each year at the latest.

Unfortunately, due to the on-going challenges impacting on the local audit market, including the need to meet regulatory and other professional requirements, we have been unable to complete our work as quickly as would normally be expected. The National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible can be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 November 2023.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Gareth Kelly

Gareth Kelly

Director

GrantThornton

grantthornton.co.uk