Final

Annual Audit Letter

Year ended 31 March 2018

Copeland Borough Council

March 2021

Contents

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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Copeland Borough Council (the Council) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 8 October 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council’s financial statements as set out in section two
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) as set out in section three; and
- consider the exercise of our additional statutory powers as set out in section two.

In our audit of the Council financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £345,000, which is 0.85**%** of the Council's gross revenue expenditure.
Financial Statements opinion	We gave a qualified opinion on the Council's financial statements on 12 October 2020. The opinion was significantly delayed beyond the statutory deadline of 31 July 2018 due to the late receipt of draft accounts, the cyber-attack in August 2017 and the complexity and scale of errors within the draft accounts presented for audit.
Use of statutory powers	We have exercised our additional statutory powers and issued a formal Statutory Recommendations Report on 18 February 2021, under section 24 and schedule 7 of the Local Audit and Accountability Act 2014. It is extremely rare to exercise such powers and the statutory recommendations to the Council are as follows: • The Council should put in place robust arrangements for the production of the 2018/19, 2019/20 and 2020/21 financial statements, which meet statutory requirements and international financial reporting standards. • Implement outstanding audit recommendations and Annual Governance Statement governance related weaknesses and actions, especially those related to ICT and business continuity, and regularly update management and members with progress and implementation of improved controls. • Carry out independent Internal Audit and Audit Committee effectiveness reviews to assess their impact on improving the Council’s internal control environment.

Executive Summary

Value for Money arrangements	We were not satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources because of weaknesses in informed decision making regarding scrutiny and content of the Medium Term Financial Plan, capacity within the finance team, delays in producing statutory accounts and material errors within the draft accounts. We therefore issued an adverse 2018/19 value for money conclusion in our audit report to the Council on 12 October 2020.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is complete and was reported to the Audit Committee in our Annual Certification Letter.
Certificate	Following the issuing of our Statutory Recommendations Report on 18 February 2021 and the Full Council consideration of it at its public meeting on 25 February 2021, we are able to certify that we have completed the audit for 2017/18. The closure certificate on the audit has been issued on 12th March 2021.

Working with the Council

The 2017/18 audit has been extremely challenging for the finance team and the audit team alike. This has been due to a number of factors including the cyber-attack on the Council in August 2017, which disabled systems for several months, capacity and transitioning issues within the finance team. All of which have all contributed to the late receipt of draft accounts. In addition, the scale of errors and amendments required to the draft accounts and challenging management arrangements, resulted in qualified audit and VFM opinions.

Despite the challenges faced we have continued to work closely with the Director of Financial Resources and his team and have maintained a professional working relationship, which was achieved through regular meetings over a prolonged audit.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
March 2021

Audit of the Accounts

Our audit approach

Materiality
In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's accounts to be £345,000, which is 0.85% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality for Related Party Transactions and Senior Officer Remuneration. This reflects the sensitivity of these areas and the lower level of misstatement, which might influence the users of the statements.

We set a lower threshold of £17,000, above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit
Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the Narrative Statement and Annual Governance Statement published alongside the Statement of Accounts to check they are consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out on the following pages the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Audit opinion

We gave a qualified opinion on the Council's financial statements on 12 October 2020.

Preparation of the accounts

The Council presented us with draft accounts in February 2019 which was considerably later than the national deadline of 30 June 2018. The draft accounts were not fully supported by adequate working papers.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 8 October 2020.

We issued a qualified audit opinion on 12 October 2020, by virtue of limitation of scope over property, plant and equipment valuations and operating expenditure completeness.

We have encountered significant issues throughout the audit with amendments to the accounts of £0.264 million to the Comprehensive Income and Expenditure Statement (CIES), £1.383 million to the Balance Sheet net assets, unadjusted errors of £0.28 million to the CIES and £0.233 million to the Balance Sheet, as well as two prior period adjustments and other potential extrapolated errors. We also identified a significant number of disclosure and misclassification errors, most of which were corrected by management in the final post audit statements.

Annual Governance Statement and Narrative Statement

We are required to review the Council's Annual Governance Statement and Narrative Statement. It published them on its website alongside the Statement of Accounts in October 2020, which was well beyond the national deadline.

Both documents were amended as a result of the audit, to be consistent with our knowledge of the Council. The published versions are consistent with the CIPFA Code and relevant supporting guidance. We were then able to confirm in our audit report opinion that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Other statutory powers

We also have additional powers and duties under the Local Audit and Accountability Act 2014 (the Act), including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts. This Act replaces the Audit Commission Act 1998, which had equivalent written recommendation powers under section 8 subsection 3 of that Act.

It is extremely rare that statutory written recommendations are issued, but on 18 February 2021 we exercised section 24, Schedule 7 of the Act, following a period of consultation and careful consideration of Council representations, and made the following recommendations:

- The Council should put in place robust arrangements for the production of the 2018/19, 2019/20 and 2020/21 financial statements, which meet statutory requirements and international financial reporting standards.

- Implement outstanding audit recommendations and Annual Governance Statement governance related weaknesses and actions, especially those related to ICT and business continuity, and regularly update management and members with progress and implementation of improved controls.

- Carry out independent Internal Audit and Audit Committee effectiveness reviews to assess their impact on improving the Council's internal control environment.

The Council has accepted these recommendations and has put in place plans to address the weaknesses in its arrangements. The Statutory Recommendations Report also set the context of a challenging market to secure permanent specialist financial reporting staff and the impact of the cyber-attack that occurred in August 2017. The Council is still recovering from this cyber-attack, and we acknowledge that it has had some bearing on the Council's ability to address the concerns we have raised on a timely basis. That said some of the longer-term failings have been exacerbated by the cyber-attack.

The Council discussed the Statutory Recommendations Report at its Full Council public meeting held on 25 February 2021. The Appointed Auditor made himself available to attend the meeting but the Council decided his presence was not required.

Certificate of closure of the audit

Following the issuing of our Statutory Recommendations Report on 18 February 2021 and the Full Council consideration of it at its public meeting on 25 February 2021, we are able to certify that we have completed the audit for 2017/18. The closure certificate on the audit has been issued on 12th March 2021.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and judgements, and transactions outside the course of business as a significant risk, 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 determined 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 to supporting evidence • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our audit work has not identified any evidence of management over-ride of controls. In particular, the findings of our review of journal controls and testing of journal entries has not identified any significant issues.
Impact of August 2017 cyber-attack on completeness and accuracy of 2017/18 transactions The Council suffered a severe cyber-attack in August 2017. There is a significant risk of data loss as a result of this attack. There is also a risk that automated interfaces to the General Ledger are not completely and accurately posted when the key systems have been restored.	We documented and walked through the system set up by management to ensure that all relevant financial data was posted to the General Ledger in 2017/18. Our specialist IT staff carried out work to agree postings from feeder systems and bank statements to the general ledger and provide assurance over the completeness of data transfer. Any issues identified were followed up to ensure that the transactions were appropriately recognised in the General Ledger. This work was supplemented by a detailed review of reconciliations of feeder system control accounts in the General Ledger at the year-end.	Our work enabled us to conclude that from our completed procedures there was no evidence of data loss as a result of the cyber-attack and that interface files have been completely and accurately posted. However, our work highlighted weaknesses in the bank reconciliation, which was difficult to follow and did not lend itself to management review. Corrective action had not been taken on certain reconciling items and the overall impact is that cash was understated by £109,000 with corresponding errors in service expenditure and debtors/ creditors. This error has been corrected in the post audit final financial statements.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment, and Investment Property The Council re-values its land and buildings on a cyclical basis, and its surplus assets and investment property annually to ensure that carrying value is not materially different from its current/ fair value. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings, and investment property, revaluations and impairments as a risk requiring special audit consideration.	We have: • reviewed the controls put in place by management to ensure that PPE and investment property is not materially misstated and walkthrough test these controls • reviewed management's processes and assumptions for the calculation of the estimate • reviewed the competence, expertise and objectivity of any management experts used • 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 For the 2017/18 revaluation exercise undertaken, we have: - reviewed the instructions issued to valuation experts and the scope of their work - discussed with the valuer about the basis on which the valuation is carried out and challenge the key assumptions - reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding - undertaken sample testing of revaluations made during the year to ensure they are input correctly into the Council's asset register.	Our work identified that the annual review carried out by management had failed to identify potential material differences between current value and carrying value of assets. In order to address this, management instructed the valuer to carry out a supplementary valuation exercise with the result that the value of land and buildings increased by £636,000. Management has updated the accounts to reflect these valuations. We identified anomalies and inconsistencies with the initial valuation report and therefore engaged an external valuer to act as an auditor's expert. The auditor's valuer expert found deficiencies in the Council's valuer's terms of reference and potential lack of familiarity with specific requirements of a year-end valuation in a local authority setting. The 2017/18 valuation was carried out under the same terms of reference which had been agreed for the 2015/16 valuation (D1.6). The auditor's expert noted that this makes no reference to the introduction of the RICS Valuation - Global Standards 2017 (effective from 1st July 2017) and no reference to RICS 2017 Valuation Standards. No reference is made to definitions of Existing Use Value or Depreciated Replacement Cost. There is also only passing reference to CIPFA guidelines which raises the query of whether these were reviewed in detail. The asset valuation reports often refer to Fair Value and the Fair Value Hierarchy, but these are not defined in the reports or Terms of Reference. The auditor's expert concluded that the Terms of Reference were deficient in providing a clear and unambiguous approach to the valuation and show a lack of attention to detail.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of property, plant and equipment, and Investment Property (continued)		The auditor's valuer expert also undertook a detailed review of the valuations carried out on the Copeland Centre and the Beacon which are the Council's higher valued assets. The Copeland Centre valuation is complex as it is based on a PFI asset, which at the balance sheet date of 31 March 2018, does not revert to the Council at the termination of the PFI agreement. The majority of the Copeland Centre is now let out to third parties on lease or other arrangements. The auditor's expert concluded that the valuer was incorrectly valuing this asset on an owner occupier basis rather than as a finance lease reflecting the nature of the PFI agreement. This indicates that the Copeland Centre is overvalued by a material amount. The Beacon Centre valuation appears to show a change in valuation technique from the prior year although this was not requested or agreed by the Council. The valuation has subsequently been revised upwards by £670k. The above errors and inconsistencies cast doubt over the validity of large valuation movements in many other Council assets and have led us to conclude that that the valuation report produced by The Council's valuer does not provide sufficient appropriate audit evidence for the PPE and Investment Property valuation accounting estimate. On this basis we have included a limitation of scope qualification in our audit report opinion regarding the valuation of PPE and Investment Property. Difficulties in developing a new asset register in 2017/18 contributed to a series of errors in the posting of revaluations. Properties were generally carried at the correct value, but there were errors in the split of postings between the Revaluation Reserve and the Surplus/ Deficit on the Provision of Services. We acknowledge that, many of these errors were identified by the client before the audit commenced. Problems centred on componentised assets and were exacerbated by inconsistent componentisation schedules provided by the valuer. Due to the scale of errors and uncertainty regarding the Copeland Centre Valuation the audit opinion was qualified by limitation of scope over property, plant and equipment valuation.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and 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 • 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 • obtained assurances from the auditor of Cumbria Local Government Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	Management decided not to adjust the pension fund liability for the impact of the McCloud age discrimination legal case, on the grounds of materiality and estimation uncertainty. We therefore reported an unadjusted error of £312,000 based upon the potential cost calculated by the Pension Fund Actuary. We noted some minor disclosure issues in the Pensions Note in the financial statements and these have been amended. We also noted that there was insufficient explanation of the Council's early repayment of pension fund liability and the note was expanded to provide greater detail on this.

Audit of the Accounts

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Capacity and Capability of the finance team The Council was not able to recruit permanent qualified accountants to its senior technical accounting posts within the finance department. Since the production of the 2014/15 financial statements until mid-2018, the Council has relied upon interim appointments to these roles in order to produce its financial statements. Whilst the Council made progress in appointing permanent finance staff in 2018, the finance department lacked key local government financial expertise and experience in producing the more complex areas of a set of local authority financial statements. These roles are key to the department due to the technical accounting expertise required.	We have: • updated our understanding of the mitigating arrangements management had in place to minimise the impact of interim finance staff leaving the organisation, and having no experienced chief accountant in post. • inquired of management as to the alternative arrangements made in ensuring technical financial accounting entries, and financial reporting areas, have been undertaken by (or with the support of) individuals with the right level of knowledge, expertise and experience • assessed how management have a robust and documented quality assurance process in place to mitigate the risk of error occurring in the financial statements.	We encountered significant issues throughout the audit with amendments to the accounts of £0.264 million to the Comprehensive Income and Expenditure Statement (CIES), £1.383 million to the Balance Sheet net assets, unadjusted errors of £0.28 million to the CIES and £0.233 million to the Balance Sheet as well as two prior period adjustments and potential extrapolated errors. The change in the finance team in advance of the production of the 2017/18 accounts with no effective handover has exacerbated the challenges faced by the new finance department who at the time, had limited exposure to producing a local government set of accounts. We acknowledge that, the Council did engage technical experts in the areas of collection fund and capital accounting. However, the significant issues we have found, in particular on PPE valuations and operating expenditure cut off underline the importance the Council must place on having the appropriate technical skills or support to compile a materially correct set of what are complex accounts. We note the current team is growing its understanding of local government accounts through the audit process as well as producing the 2018/19 set of accounts. It is important the Council continues to invest in its Finance team and relevant experts to ensure that it can produce compliant financial statements that are free from material misstatement in the future.

Audit of the Accounts

Reasonably possible audit risks

These are other risks in the Audit Plan where due to the values involved we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Employee remuneration - completeness Payroll expenditure represents a significant percentage of the Council's operating expenses. As the payroll expenditure comes from a number of individual transactions and an interface with a number of different sub-systems there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	We have: • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness • gained an understanding of the Council's system for accounting for payroll expenditure and evaluated the design of the associated controls • obtained the year-end payroll reconciliation and ensured the amount in accounts can be reconciled to ledger and through to payroll reports • undertaken payroll substantive analytical procedures and investigated any unexpected variances • agreed payroll related accruals to supporting documents and reviewed any estimates for reasonableness.	We found that the incorrect rate was used for employer's pension contributions up to and including October 2017. Contributions were paid at the old rate of 12.4% although the correct rate from April 2017 was 15.9%. This error was identified during the year and an adjusting payment was made. Our testing included payments made to staff for election duties. We found that no documentation was available to support these payments. The total payments made for election work were £204,000 so we are satisfied that this is not a material issue for the financial statements. However, the Council needs to ensure that future payments of this nature can be fully supported. Our testing identified three payroll overpayment errors totalling £677. As the Council has determined that the amounts will not be recovered, it would be incorrect to propose an adjustment to the accounts. Extrapolation of this error would derive a potential non-material error in the region of £26,717.

Audit of the Accounts

Reasonably possible audit risks

These are other risks in the Audit Plan where due to the values involved we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Operating expenses - completeness Non-pay expenses on other goods and services also represents a significant percentage of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention.	We have: • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls • obtained a listing of non-pay payments made in April to July, and sample tested to ensure that transactions have been charged to the appropriate year.	Our testing of operating expenditure identified errors which left us unable to conclude that expenditure was fairly stated. We carried out further testing but this identified further errors. From a total sample of 165 items, errors were found in 11 cases. Two of these errors related to expenditure incorrectly classified as income. Further work enabled us to quantify the size of the error due to incorrect income/ expenditure classification and the statements were amended. However, the remaining 9 errors extrapolate a potential £1,383,000 error in operating expenditure. The Council carried out further work but was unable to isolate the nature of these errors and quantify the error. In all cases we were satisfied that the expenditure had taken place and was fully supported, but it had not been recorded in the correct financial year. As a result the audit engagement team is unable to obtain sufficient appropriate audit evidence on which to base the opinion, but the engagement team concludes that the possible effects on the financial statements of undetected misstatements, if any, could be material but not pervasive. As a result our audit report on this aspect of the financial statements is qualified by limitation of scope.

Audit of the Accounts - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

Management have a range of procedures in place to provide assurance that the Council remains a going concern including:

- regular review of cash flow and Treasury Management;
- regular review and reporting of financial performance against budget;
- regular review and update of the Medium-Term Financial Plan; and
- appropriate review, scrutiny and reporting of earmarked reserves and General Fund Balance.

Auditor commentary

- Management has undertaken a thorough review of the risks facing the Council including reduction in government funding and pressures on budgets.
- Plans to address the risks are considered realistic and deliverable.
- Management has also recognised and assessed the likely impact of Covid-19 on the Medium Term Financial Strategy although this is yet to be fully quantified and factored in due to the uncertainty involved.
- Overall management's processes are considered to be sufficiently robust to demonstrate a well informed view of going concern.
- However, management did not prepare a formal assessment of the basis of the going concern assessment pulling together all the sources of evidence to inform Members. We have recommended this is produced in future years.

Work performed

- We have reviewed the medium term financial plan and considered the reasonableness of the assumptions on which it is based.
- We noted your total general fund balance (including earmarked reserves) increased by £6.6m in 2017/18 to £21.1m. Cash and cash equivalents increased by £1.25m to £6m during the period.
- Our work has not identified any events or conditions existing that may cast significant doubt on the Council's ability to remain as a going concern.

Concluding comments

- We have identified no events or conditions in the course of the audit that we consider may cast significant doubt on your ability to continue as a going concern
- We issued an unmodified audit report in respect of going concern.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in October 2020, we identified and agreed six recommendations with management to address our findings. These are listed at Appendix B.

Overall Value for Money conclusion

Based on the work we performed to address the significant risks, we concluded that because of the significance of the matters we identified in respect of the Council's financial reporting and sustainability arrangements, the gap in the skills and capacity within the finance team and issues in relation to the internal control environment, we are not satisfied that the Council has made proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

We therefore issued a qualified 'adverse' conclusion.

Key findings

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

Significant risk	Findings	Conclusion
1 **Financial Sustainability and the Medium Term Financial Plan (MTFP)** The Council continues to face a challenging environment in the short to medium-term. Local Government funding continues to be stretched with increasing cost pressures and demand from residents. For Copeland Borough Council, this is leading to pressure to identify significant savings to achieve a balanced budget. There continues to be significant uncertainty over the future of Local Government funding beyond 2020. The Medium Term Financial Strategy (MTFS) 2017/18 to 2020/21 was refreshed in February 2018 and shows that efficiencies and additional income totalling £2.430 million is required to ensure delivery of balanced budgets in each of the three remaining years of the MTFS (2018/19 to 2020/21). The efficiencies required have increased for the period covered by the MTFS from 2019/20 to 2021/22 approved in February 2019 to £4.659 million. There are considerable uncertainties over various revenue streams in the medium term. As a result the Council has to apply a number of estimates and key judgements to compile the MTFP.	The draft financial statements report an outturn net expenditure of £10.9m is against a budget of £9.5m, which is a £1.4m overspend against budget, this includes transfer to earmarked reserves of £1.1m. This is mainly due to: -Cyber costs: The Council incurred significant costs in relation to the recovery from the Cyber-attack. This included expenditure in relation to IT specialists, new IT equipment including software and hardware and new IT controls implemented. The total cost of this was over £1.7m in total with £788,000 incurred in 2017/18. MHCLG confirmed that this expenditure could be capitalised and therefore £788,000 of the overspend has subsequently been capitalised, and the impact on the revenue budget removed. - Copeland Centre rental income: A delay in delivering the accommodation strategy for the Copeland Centre has resulted in lost income of almost £600,000. - Finance overspends: Overspends in finance from additional consultants required to ensure the continuity of service and a shortfall in Treasury Management income. The Council achieved an additional £500,000 finance against budget and therefore the provisional outturn after capitalisation of cyber costs and therefore the final provisional overspend is £80,000. As noted in the financial reporting risk, from September 2017 to November 2018 there was no budget monitoring in place. Members received no financial information on which to base informed decisions, and therefore the 2018/19 budget setting process was not based on the most up to date information. There is a risk therefore that the 2018/19 budget was based on flawed assumptions, or pressures which had not been taken into account. The Council set the 2018/19 budget and Council tax requirement in March 2018 following detailed consideration in February 2018. This resulted in a revenue budget for 2018/19 of £8.986 million and a Council Tax increase of 1.95%. The Council has set a balanced budget, but this includes delivery of an efficiency savings plan of £1.141 million. The Council's revised financial strategy proposes taking advantage of capital receipts flexibility for 2018/19 to assist in the setting up of any commercial activities, subject to the availability of capital receipts over and above those required to fund the existing Capital Plan. Efficiencies and additional income totalling £2.587 million are required to ensure delivery of balanced budgets in each of the three remaining years of the MTFS (2018/19 to 2020/21). The MTFS updated in February 2019 increases the savings required to 2021/22 to £4.659 million.	**Auditor view** Our findings are indicative of weak financial management arrangements. The Council needs to: - Include scenario planning and sensitivity analysis in its MTFS to aide management and member's understanding of the impact changes to assumptions could have on future budgets. - Factor in estimates of the potential impact of the Fair Funding Review and the Business Rates Retention Scheme on its MTFS, to allow management and members to make informed decisions based on prudent estimates of future revenue streams. - There was no financial monitoring undertaken between September 2017 and November 2018. This has meant that Management and Members could not make timely informed decisions in relation to the 2017/18 budget, or the creation of the 2018/19 budget - Closely monitor the run rate and pressure on GF unearmarked reserves given the cumulative impact of under-delivery on saving plans.

Key findings

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

Significant risk	Findings	Conclusion
1 **Financial Sustainability and the Medium Term Financial Plan (MTFP)** Continued	Consideration of the latest MTFS shows that the key planning assumptions included within the MTFS appear reasonable and have been updated as part of the refresh of the MTFS. The factors considered included inflation, pay increases, charges but has not included any estimates of reductions to revenue as a result of the Fair Funding Review or the Business Rates Retention review. General fund unearmarked reserves as at 31 March 2018 (in the draft financial statements) are £3.268 million and is projected to reduce to £2.809 million over the 3 years covered by the MTFS, assuming the efficiency plan is delivered in full. However, as the MTFS currently does not include any assumptions in relation to the impact the Fair Funding Review or the Business Rates Retention review, in terms of their potential impact on future Council revenue streams. This is out of line with the LG sector where a reduction in revenue for borough councils has been assumed, and therefore the savings gap in the budget may be higher than currently forecast. The current MTFS does not include scenario planning or sensitivity analysis which would help the organisation to understand how changes in events or assumptions would impact on the budget. The MTFS sets a balanced budget over the next 3 periods, but this includes ‘efficiency’ savings to be achieved in each year: 2018/19 of £1,141,000, 2019/20 of £741,000 and 2020/21 of £705,000. Whilst the entire amount required in 2018/19 has been identified, there remains a gap in 2019/20 of £500,000 and 2020/21 of £578,000. This is a recurring savings gap which will compound if the full amount is not identified. The Executive usually monitor progress against the Efficiency Programme on a quarterly basis, however due to the cyber-attack this monitoring of progress against savings has not been completed. The provisional outturn report for 2017/18 shows the performance against plan of the savings programme. Out of a budgeted saving of £709,000, £590,000 has been achieved which is a shortfall of £139,000. From the provisional 2018/19 outturn available, there was an under-delivery against the 2018/19 planned efficiencies. Against a plan of £1,141,000, actual savings delivered were £841,000 (74% of plan) providing a further £300,000 pressure for future periods. The Council commissioned an independent Local Government Association peer review of the Council, in line with best practice. This concluded in a formal report to the Council including recommendations, in November 2018. One of the key recommendations of this report was “The profile of the financial challenge should be raised urgently with all Members. The longstanding failure to produce accounts is well-known and action is being taken prevent this happening again. However, the Council’s forecast financial position requires immediate action and it is not widely understood that this is urgent.”	**Management response** **No financial monitoring undertaken between September 2017 and November 2018** In August 2017, part way through the 2017/18 financial year, Copeland Borough Council was the subject of a zero day malware ransom attack, also a brute force remote desk top attack, undetectable to anti virus software and completely devastating to the running of the Council. The attack was resourced, intelligent, sophisticated and not like any other known to that date, and, our advice is that it did not originate from the UK. The Council as a whole lost 5 weeks of functionality, all services were affected and many continue to play catch up. For example the Council was without a financial system for 8 months, did not have access to elections information despite having to run a by-election, struggled to pay staff, complete searches, provide land searches, pay for fleet fuel, process planning applications, issue grants etc. This affected our ability to close our accounts on time, make a number of the statutory returns to Government, provide financial management information to members, implement audit recommendations. For a very small Council the task of recovery was huge. The LGA and National Cyber Security Centre, amongst other national organisations, have recognised the severity of the attack, but also the way in which we organised our recovery and the LGA have written up a case study to share our experience. The total cost of the attack (direct and indirect) is well in excess of £2m; this is over 20% of our annual budget. Government have agreed that Copeland’s cyber security is a matter of national interest and needs to remain secure and safe against an ever increasing threat risk.

Key findings

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

	Significant risk	Findings	Conclusion
1	**Financial Sustainability and the Medium Term Financial Plan (MTFP)** Continued	Continued	**Management response** **Include scenario planning and sensitivity analysis in its MTFS to aide management and member's understanding of the impact changes to assumptions could have on future budgets. Factor in estimates of the potential impact of the Fair Funding Review and the Business Rates Retention Scheme on its MTFS, to allow management and members to make informed decisions based on prudent estimates of future revenue streams.** The Council accepts that there are steps that can be made to improve the MTFS to provide more scenarios including the potential impact of the Fair Funding Review and the Business Rates Retention Scheme. **Closely monitor the run rate and pressure on GF unearmarked reserves given the cumulative impact of under-delivery on saving plans.** In year budget monitoring processes have been re-established from October 2018 following the devastating cyber attack in August 2017. They have for some time included the pressure on General Reserves.

Key findings

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

Significant risk	Findings	Conclusion
1 **Financial Sustainability and the Medium Term Financial Plan (MTFP)** Continued		**Management response** At this time the Council also had unprecedented levels of staff turnover in the finance team; this followed a long period of high turnover and a reliance on finance consultants. It was only during 2018 that the task of rebuilding the finance team commenced with the appointment of a new S151 officer and new team. The task of rebuilding the finance team and function at the Council has been significant for a small Council with very limited resources. Thus these findings needs to be put in this broad context, the auditor view is accepted. • The quality and clarity of the financial information provided to Members to aid decision making; identifying the key risks and potential implications. However, there further improvements can be made to the MTFS to aide both management and member's understanding of the impact changes to assumptions could have on future budgets, the MTFS will be developed to include scenario planning and sensitivity analysis. • Whilst consideration has been given to both the Fair Funding Review and the Business Rates Retention Scheme on the MTFS an analysis of the potential impact on resources was not included in scenarios for consideration. This will be included in future versions of the MTFS • The Council has improved budget monitoring reports to include the impact of the forecast position on the General Fund. The MTFS and budget monitoring reports will be further developed to show the longer term impact on the General Fund if savings / income generation plans do not fully materialise.

Significant risk	Findings	Conclusion
2 **Financial reporting** The Council has produced accounts after the statutory deadline in each of the previous three years. This is primarily due to significant problems with the 2014/15 accounts which have had a knock-on effect into succeeding financial years, combined with the impact of the Cyber-attack suffered in August 2017. There is a risk that the Council has not been able to make informed decisions in the budgeting and monitoring process, as the final outturn position for 2017/18 was not finalised until early 2019.	During 2017/18 the Council has monitored progress against its revenue and capital budgets in quarters 1 and 2 with reports to the Executive. There were no further budgeting monitoring reports to Executive after September 2017, and they did not start again until October 2018. This was as a direct result of the cyber attack on the Council's financial systems. The lack of any financial updates, even verbally, meant that members were not in a position to make fully informed decisions. Provisional unaudited revenue outturn report reported an underspend of £0.080 million. The outturn report shows expenditure against the revised budget of £9.496 million (which includes the approved 2016/17 carry forwards of £0.463 million). Furthermore, the expenditure figure in the outturn report includes proposed carry forwards to 2018/19 of £0.446 million. Projected expenditure at Q2 was reported as £9.687 million and outturn expenditure was £10.864 million – a variation of £1.177 million. This is primarily due to costs in relation to the recovery from the cyberattack, which totalled £0.788 million in 2017/18 and has subsequently been capitalised based on a directive from MHCLG. This reduced the variance between Q2 and outturn to £0.389 million and there was an increase in sources of finance from budget of £0.500 million. The outturn expenditure includes a transfer to earmarked reserves of £1,134 million of which the carry forward amounts are an element. Normal expectation would be that outturn reports for 2017/18 would be produced and considered by Members in May or early June 2018 so that the 2017/18 accounts could be produced by 30 June 2018. Copeland had significant delays in producing its 2014/15 accounts which were only signed on 4 August 201 with the knock-on impact on the 2015/16 accounts being signed on 22 May 2017, and the impact on the 2016/17 accounts being signed on 21 March 2018. Given these delays, it would be unreasonable to expect the outturn reports to be produced by May / early June 2018. In the event, provisional revenue and capital outturn reports were produced on 20 November 2018, and the draft Statement of Accounts were submitted for audit in February 2019. An updated outturn report based on the capitalisation and amendments made for the draft Statement of Accounts has not been reported to members. Members have also not received a draft version of the Statement of Accounts for scrutiny and comment. There is a combination of three primary reasons for the delay in the production of the 2017/18 Statement of Accounts: • Delay in production and sign-off of the 2016/17 accounts, impacting on the ability to complete the 2017/18 accounts. • The effects of the cyber-attack in August 2017, which impacted on financial reporting until October 2018. • Turnover of finance team staff – during the period between the 2016/17 accounts being signed off and the production of the 2017/18 accounts; there was significant turnover of senior finance team members, with limited handover periods in place. After the appointment of new finance team, there was a significant period of time required to get up to date with the processes in place to produce the Statement of Accounts. The new finance team also lacked experience in preparing a local government statement of accounts, which is discussed further in the skills and capacity of the finance team VfM risk. The Council faces significant challenges to restore the financial reporting cycle to expected timescales, and to achieve earlier closedown in line with Government regulations. The lack of a timely audited outturn position and Statement of Accounts is prohibitive to management and members making fully informed decisions.	**Auditor view** • We concluded that there were weaknesses in the Council's arrangements for ensuring the production of reliable and timely financial reporting that supports the delivery of strategic priorities and having arrangements in place for understanding and using appropriate and timely cost information to support informed decision-making. **Management response** • Accepted, the Council has made significant steps towards embedding a permanent finance team with the capability of delivering timely financial statements with the capability of delivering high quality supporting working papers within statutory deadlines. The Council has a set of 2018/19 financial statements that were approved in July 2019, they are: • supported by good quality working papers which will be available at the start of the audit; • have been subject to robust quality assurance; • have been prepared by a suitably qualified staff as set out in the previous point.

Key findings

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

	Significant risk	Findings	Conclusion
3	**Finance Department skills and capacity gap** The Council was not able to recruit permanent qualified accountants to its senior technical accounting posts within the finance department. Since the production of the 2014/15 financial statements until mid-2018, the Council has relied upon interim appointments to these roles in order to produce its financial statements. These roles are key to the department due to the technical accounting expertise required.	The Council lost three key members of its Finance Department between January and May 2015. To address this the Council brought in temporary interim accountants from February 2015 and interim arrangements remained in place for these posts throughout 2017/18. The Council restructured its Finance Department after the loss of key staff members and as part of the Council's review of support services reviews. The re-structure seen a reduction of 3.4 Full time equivalent posts but with a focus of getting appropriate skilled staff in place. Of the three qualified accountant's posts only one was filled during 2017/18 by a part qualified accountant. As in 2015/16 and 2016/17 there remained a heavy reliance on interim appointments to perform the qualified accountant roles. This carried with it the additional costs associated with covering these posts. During 2018/19 the accountant posts have been filled by permanent staff, including two qualified and one part-qualified accountants. The new finance team has been responsible for the production of the 2017/18 financial statements. Whilst the appointment of permanent and qualified accounting staff is a positive, there was still a skills gap in the finance team in terms of experience of producing a set of Local Government financial statements. This was recognised by the Council and appropriate support was procured from CIPFA and neighbouring authorities in the production of the 2017/18 financial statements. The time lapse between the interim accountants leaving the Council and the permanent staff joining the Council meant there was no formal handover period. As a result of this, the finance team had to spend a significant amount of time understanding the accounting processes used in 2016/17, identifying appropriate working papers to use in the production of the financial statements, and recreating financial records from different sources. There has been a delay in the production and audit of the financial statements since 2014/15. There was an improvement in the standard of the accounts presented for audit in 2015/16 and 2016/17 and the Council's ability to respond to technical queries. However, this was chiefly due to the input of the two interim appointments. The production of the 2017/18 financial statements was delayed through a combination of previous accounts being late, the cyber attack and the change of finance team. The 2017/18 accounts included a significant number of errors which have resulted in material amendments and qualifications to the accounts as detailed in the accounts sections of this Audit Findings Report. The errors are in a number of areas at both transactional financial accounting level as well as at financial reporting level. This highlights the skills and capacity gap within the Finance team.	**Auditor view** The skills gap at qualified accountant level within the Finance Department was addressed through the use of contractors throughout 2017/18. However, this carried a financial cost in terms of expensive contractors and significant additional audit fees, which is inconsistent with sustainable resource deployment. We concluded that there were weaknesses in the Council's arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities. **Management response** Significant progress has been made as set out below: Progress with ensuring there are sufficient resources and specialist skills are available to support the accounts production: Permanent Suitably Qualified Staffing: - May 2018 – 0 Accountants, 1 x Trainee Accountant, 2 Accounting Technicians - There are three Qualified /Experienced Accountant posts in the Finance Structure; the Section 151 Officer & two Accountants.

Key findings

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

	Significant risk	Findings	Conclusion
3	**Finance Department skills and capacity gap** The Council was not able to recruit permanent qualified accountants to its senior technical accounting posts within the finance department. Since the production of the 2014/15 financial statements until mid-2018, the Council has relied upon interim appointments to these roles in order to produce its financial statements. These roles are key to the department due to the technical accounting expertise required.	Continued	**Management response continued** - In May 2018 these posts were vacant, they were previously occupied by interim staff. In post was a Trainee Accountant. - In June 2018 the Section 151 post was filled on a permanent basis; 20+ years post qualification local government experience. - In July 2018 the Accountant Post was filled on a permanent basis; AAT qualified & nearly CIMA qualified 20+ years local government experience. Budget Monitoring processes recommence in September 2018 following the cyber-attack in August 2017 - In January 2019 the Accountant Post was filled on a permanent basis; ACA qualified 5+ years, experience in practice. January 2019 – 3 Accountants (2 x Qualified + 1 x Experienced / Part Qualified) 1 x Trainee Accountant, 2 Accounting Technicians Draft 2017/18 Financial Statements Prepared February 2019 - In June 2019 the CIPFA Trainee Accountant was made redundant, there were issues with accuracy, timeliness and quality of work. Draft 2018/19 Financial Statements Prepared July 2019 - In September 2020 the payroll officer joined the team from HR and began supporting the accounting function approximately 2 weeks per month; they are now training with CIPFA.

Key findings

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

	Significant risk	Findings	Conclusion
3	**Finance Department skills and capacity gap** The Council was not able to recruit permanent qualified accountants to its senior technical accounting posts within the finance department. Since the production of the 2014/15 financial statements until mid-2018, the Council has relied upon interim appointments to these roles in order to produce its financial statements. These roles are key to the department due to the technical accounting expertise required.	Continued	**Management response continued** - In August 2020 an additional part time post was established to support the clearing of the backlog of Accounts; Qualified 20+ years Local Government Accounting experience. - From October 2020 one of the Accountants is leaving (experienced /nearly qualified). - From October 2020 two Accountants have been appointed; newly ACA qualified from Practice and 20+ AAT Qualified. October 2020 – 4 Accountants (3 x Qualified (1 to support clearing backlog of accounts, 1 x Experienced / Part Qualified) 2 x Accounting Technicians Additional Technical Support on Production of Financial Statements - 2018 & 2019 – 2017/18 & 2018/19 accounts, support from CIPFA on Collection Fund - 2019 & 2020 – 2017/18 accounts, support from County Council on Statement of Accounts generally - 2018 & 2019 – 2017/18 & 2018/19 accounts, support from LG Futures on Collection Fund - 2018 & 2019 – 2017/18 & 2018/19 accounts, support from Treasury Advisors on Financial Instruments The Asset Valuers were also changed in early 2020 following asset valuation issues with the 2017/18 & 2018/19 asset valuations

Key findings

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

	Significant risk	Findings	Conclusion
❸	**Finance Department skills and capacity gap** The Council was not able to recruit permanent qualified accountants to its senior technical accounting posts within the finance department. Since the production of the 2014/15 financial statements until mid-2018, the Council has relied upon interim appointments to these roles in order to produce its financial statements. These roles are key to the department due to the technical accounting expertise required.	Continued	**Management response continued** From our own benchmarking across the county the Council has had a comparable finance team to other District Councils to support the production of the financial statements. This has been in place since 2019/20. The Council has increased capacity to support clearing the backlog. The most significant factors in the delay of finalising the 2017/18 accounts has been Extraordinary sample sizes due to: • 2016/17 cut off errors accounted for in 2017/18; and • Cyber Attack Valuation issues The Council is of the view that sufficient resources and specialist skills are available to support the accounts production process.

Key findings

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

	Significant risk	Findings	Conclusion
4	**Internal Control** The Council has not acted on a timely basis to address the weaknesses in its internal control environment, which were highlighted in recommendations made by Internal Audit and in its Annual Governance Statement Action Plan. Failure to take prompt action in response to identified weaknesses may have exacerbated the impact of the cyber-attack and contributed to the delay in restoring normal service delivery following the attack. Furthermore there is a risk that normal control activities did not take place or were delayed, in the wake of the cyber-attack.	The Council has updated the outstanding Internal Audit recommendations to the Audit and Governance Committee regularly during 2017/18, which was an improvement on 2016/17 when this was only reported once. In the report of outstanding recommendations to the March 2018 Audit and Governance Committee there were 16 priority 1 recommendations with overdue dates from April 2016 to February 2018. There were also 29 overdue priority 2 recommendations. This is an overall decline from the position in 2016/17, on which the except-for qualification was based, where there were 11 priority 1 and 32 priority 2 recommendations outstanding. The Council's Annual Governance Statement Action Plan for 2017/18 have some actions that have been carried forward from 2014/15. Implementation of AGS Action Plan on significant governance risk areas need to be more timely. The 2016/17 AGS specifically refers to ICT Team lacking resilience and incomplete ICT Disaster Recovery Plan documentation. The Council itself recognised in its strategic risk register that it is dependent on its Information and Communications Technology Systems to deliver its services. Failure of these systems, from any cause, would impact on service delivery, the Council's ability to manage its finances and the Council's reputation. This was a red risk on the Council's risk matrix. Mitigating actions included an ICT Business Continuity Plan and Improved Information Management & procedures. Despite Internal and External Audit recommendations and inclusion in Annual Governance Statement Actions Plan, no up to date and appropriately approved Disaster Recovery (DR) plan was put in place for Copeland Borough Council. The Council suffered a cyber-attack in August 2017, which had a significant impact on the IT systems, council services and financial reporting for a extended period of time. The Council's immediate response to the cyber-attack was to prevent the spread of the virus into any other systems, and to work with partners across the County to ensure key services could continue to be provided in the absence of many systems. The recovery period was extended and required the replacement of hardware, improving of software and security systems, and the use of experts to attempt to recover data loss and rebuild systems. The cost of the cyber-attack has been significant at over £2.5 million excluding staff costs. The Council has been successful in receiving a directive from MHCLG allowing the capitalisation of the majority of these costs to protect the Councils general fund reserves. The impact on the financial monitoring and reporting process has been discussed elsewhere in the report and led to members not receiving financial monitoring reports for over a period of 12 months.	**Auditor view** We concluded that there were weaknesses in the Council's arrangements for informed decision making in implementing internal control weaknesses identified from both Internal, external audit reports and from Annual Governance Statement Action Plans. The date of overdue recommendations includes those outstanding since 2016 and is indicative of weaknesses in informed decision making in the Council's ability to implement actions in a timely matter on known internal control weakness areas. We acknowledge that, the cyber-attack has contributed to the delay in implementing the required actions. We have also concluded that there were weaknesses in the Council's arrangements for implementing the ICT Strategy and business continuity planning processes recommendations identified from Internal Audit Reviews, which links to the informed decision-making criteria. **Management response** overleaf

Key findings

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

	Significant risk	Findings	Conclusion
4	**Internal Control** The Council has not acted on a timely basis to address the weaknesses in its internal control environment, which were highlighted in recommendations made by Internal Audit and in its Annual Governance Statement Action Plan. Failure to take prompt action in response to identified weaknesses may have exacerbated the impact of the cyber-attack and contributed to the delay in restoring normal service delivery following the attack. Furthermore there is a risk that normal control activities did not take place or were delayed, in the wake of the cyber-attack.	Continued	**Management response** Implementation of External and Internal Audit and Annual Governance Statement recommendations are monitored through the Council's performance management software that enables all managers to update progress with implementation. This is then collated and reported to CLT and the Audit Committee. The cyber-attack in August 2017 meant many recommendations could not be implemented, due to system/technical reasons and management time focussed on the restoration and recovery process. Areas such as finance did also not have the resources available. However significant progress has been made in implementing recommendations and this can be demonstrated by the table below of outstanding recommendations: These have all been reported to the Audit Committee.

	Priority 1	Priority 2
31/12/2017	21	51
31/03/2018	16	29
31/03/2019	12	20
31/03/2020	7	16

Appendix A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	March 2018
Audit Findings Report	October 2020
Statutory Recommendations	February 2021
Annual Audit Letter	March 2021
Delayed certificate 2017/18	12 March 2021

Fees

	Planned £	Actual fees £	2016/17 fees £
Statutory Council audit	53,667	167,000	97,548
Housing Benefit Grant Certification	15,246	15,246	13,639
Total fees	**65,705**	**182,246**	**111,187**

Variation from proposed fee

The planned fees for the year were higher than the scale fee set by Public Sector Audit Appointments Ltd (PSAA) for the reasons set out below.

The Council has experienced staffing and capacity issues over a number of years within the finance department, and the lack of consistency of finance team and adequate handover has contributed to delays in completing the 2017/18 audit. The most significant impact on the 2017/18 audit has been the cyber-attack the Council experienced in August 2017, with a loss of all its systems including financial related systems, which has made the audit high risk especially in the aspects of completeness and accuracy of all transaction areas. As a result very large samples have significantly increased the additional time required to complete the audit in 2017/18. We also experienced significant issues in the area of PPE and we have not been able to secure adequate assurance over the PPE valuation process which has lead to us having to appoint an Auditor's expert and has led us to a limitation of scope type opinion qualification. Our audit work on completeness and accuracy of 2017/18 expenditure testing has also led to a limitation of scope in our audit report opinion.

There were a significant number of complex issues on this audit in terms of internal control, value for money conclusion additional risks, financial statements additional risks as well as numerous errors to the primary statements and disclosure notes. Therefore additional time was required to document all of the issues in the Audit Findings Report as well as to check all the amendments corrected within the financial statements. We have had to involve a number of other specialists on the audit including Partner led accounts and VFM panels and financial reporting and audit quality and cyber specialists.

Appendix B. Recommendations – Audit of Accounts

We have identified/followed up 19 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 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

	Assessment	Issue and risk	Recommendations
1	● High	• We recommended last year that instructions to the Valuer and control over final valuations and component schedules should be improved. This issue has not been adequately addressed and further action is required to provide clear evidence of the scope and results of the valuation exercise. Our valuer expert has also found the instructions were not clear.	(Brought forward from 2016/17) Provide clear instructions to the Valuer including the format of the final valuation report. The final valuation report should clearly identify the assets that have been revalued and the aggregate value of the individual assets. Componentisation schedules should be included where required. **Management response** • Accepted, both the property manager and valuer have changed, this issue has been resolved for the 2019/20 valuation however, similar issues may exist with the 2018/19 financial statements as the same valuer and property manager was in place for the 2018/19 financial statements.
2	● High	• We recommended last year that working paper requirements should be agreed with the auditor and that these should include key specified items. Update: • There has been improvement in the working papers produced to support the financial statements in 2017/18. However, there remain areas which could be strengthened.	(Brought forward from 2016/17) Agree working paper requirements with the external auditor. These should include: • analytical review of figures in the primary statements; • documentation to support critical judgements and estimates; • consideration of whether there may be material discrepancies between current value and carrying value for assets which have not been revalued; and • cash flow projections to evidence going concern. **Management response** • A list of working papers/audit deliverables has been provided by the Auditor for the 2018/19 audit, this is being completed as part of the update of the 2018/19 Accounts and working papers prior to the commencement of the audit.
3	● High	• We found significant errors in the coding of income and expenditure to the correct financial year. This issue was also reported last year.	(Brought forward from 2016/17) Review cut-off arrangements to ensure that there are appropriate procedures in place to identify income and expenditure which should be accrued at year end. **Management response** • Accepted, there were items that should have been coded to 2016/17 which were not identified in the 2016/17 closedown process or subsequent audit and thus accounted for in 2017/18.

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

Recommendations

	Assessment	Issue and risk	Recommendations
4	High	• Our audit identified that there was a material difference between current value and carrying value for those assets which had not been revalued. Management had not carried out an exercise of this nature to confirm that the PPE balance did not contain material misstatement.	Carry out an annual review of potential differences between current value and carrying value of assets not revalued at the year end to demonstrate that no material error has arisen in respect of assets not revalued. **Management response** • Accepted, this will be built into the closedown timetable.
5	Medium	• We found that the asset register did not contain information in respect of all downward valuations charged to the CIES in previous years. This information is required to ensure that future revaluations are correctly posted.	Ensure that details of revaluation postings are maintained on the asset register and that revaluation reserve balances and postings to the CIES are rolled forward at the end of each financial year. **Management response** • Accepted, the asset register did contain information in respect of downward valuations charged to the CIES; the figures detailed however had been calculated based on the difference between current costs and historic cost figures taken from the FAR software as at 31.03.16. These figures however did not agree with the audited figures at 31.03.16. An update to the 17/18 spreadsheet FAR was done to reflect the audited figures c/f.
6	Medium	• Our work identified unexpected movements in Fair Value classifications for surplus assets and Investment Property. Some were found to be errors. The financial statements did not provide explanations for transfer of assets between levels in the fair value hierarchy	Review movements in Fair Value classifications for reasonableness and challenge valuer on unexpected changes. Provide explanation in the financial statements of any transfer of assets between levels in the fair value hierarchy, and the Council's policy on such transfers. **Management response** • The 2017/18 Accounts have been updated to reflect and explain any transfers between levels. The Property & Estates Manager has reviewed the 2018/19 reclassifications provided by Amcat UK to ensure these are correct.
7	Medium	• Our work highlighted weaknesses in the bank reconciliation which is difficult to follow and does not lend itself to management review. There is a risk that fraud or error in the accounting system may go unnoticed.	(Brought forward from 2016/17) Ensure that there is a clear timetable in place for the production and review of control account reconciliations. The format of reconciliations should enable the nature and validity of reconciling items to be determined, and senior officer review should be properly evidenced. **Management response** • Agreed

Controls

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

Recommendations

	Assessment	Issue and risk	Recommendations
8	Medium	• We were unable to agree details of payments made to staff for election duties which were included in our sample testing.	Ensure documentation is prepared and retained for all payments relating to election duties. **Management response** • Accepted. Appropriate evidence is retained to support additional payments to staff.
9	Medium	• We found several errors in the disclosure of Senior Officer Remuneration. These errors were relatively minor but this is a sensitive disclosure and should be subject to rigorous QA.	Introduce additional QA procedures over sensitive disclosure items in the financial statements. This should include Senior Officer Remuneration and Related Party Transactions. **Management response** • Accepted.
10	Medium	• There should be realistic agreed response times for external audit queries and sample requests, and arrangements to ensure that these can be met. This is important as we work with the Council to complete the 2018/19 and 2019/20 accounts audits in a timely manner to what are very tight timetables.	Revisit and agree response times for external audit queries and sample requests and put in place arrangements to ensure that these can be met **Management response** • Accepted, the sample sizes were many multiples of those requested from other organisations and thus the ability for a small team to manage the audit workload within the timescales was extremely difficult. Improvement in capacity and capability in the finance team will ensure the team improve.
11	Medium	• Audit testing identified several examples of disposals/ derecognitions of PPE which were not accounted for in the correct year.	(Brought forward from 2016/17) Put procedures in place to ensure that any disposals of PPE are notified to the Finance Team and promptly removed from the asset register. In particular, ensure that there is a clear process in place which ensures that the Legal Department notifies the Finance Department promptly, and with supporting evidence, when a Community Asset Transfer takes place so that these can be correctly accounted for in the financial statements **Management response** • A procedure is now in place that ensures Finance Team is notified when Community Asset Transfers take place and disposals are completed.

Controls

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

Recommendations

	Assessment	Issue and risk	Recommendations
12	Medium	• Communication with the management expert (Link Asset Services) to provide fair values of financial assets and liabilities was not retained. Not all required values were obtained.	Ensure that communication with the management expert for fair value of financial assets and liabilities is properly documented, and retained, and covers all required disclosures. **Management response** All correspondence between Link Asset Services and the Council for the information required for the Accounts is now retained in the Accounts working papers folders.
13	High	• Management did not prepare an assessment of going concern in the form of a report to Members or the Audit Committee which pulled together their justification for the going concern basis of accounts preparation. Whilst we do not disagree with management in their conclusion that going concern is appropriate, CIPFA bulletin 05 recommends that a formal assessment is undertaken. The assessment should cover the period of 12 months post audit opinion.	A management paper to support the going concern assessment should be prepared annually for the Audit Committee and submitted with the audit working papers. **Management response** CIPFA issued Bulletin 05 in April 2020. A paper on the assessment of going concern will be prepared and presented to the Audit Committee on an annual basis in future.

Controls

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

Recommendations – VFM Conclusion

	Assessment	Issue and risk	Recommendations
1	Medium	• Scenario planning and sensitivity analysis was not factored in the MTFS to aide management and member's understanding of the impact changes to assumptions could have on future budgets.	Include scenario planning and sensitivity analysis in its MTFS to aide management and member's understanding of the impact changes to assumptions could have on future budgets. **Management response** • Accepted, the Council has taken steps to improve the quality and clarity of the financial information provided to Members to aid decision making; identifying the key risks and potential implications. However, further improvements can be made to the MTFS to aide both management and Member's understanding of the impact changes to assumptions could have on future budgets, the MTFS will be developed to include scenario planning and sensitivity analysis.
2	Medium	• The MTFS did not factor in estimates of the potential impact of the Fair Funding Review and the Business Rates Retention Scheme. This is important to allow management and members to make informed decisions based on prudent estimates of future revenue streams.	Introduce estimates of the potential impact of the Fair Funding Review and the Business Rates Retention Scheme on the MTFS, to allow management and members to make informed decisions based on prudent estimates of future revenue streams. **Management response** • Accepted, whilst consideration has been given to both the Fair Funding Review and the Business Rates Retention Scheme on the MTFS an analysis of the potential impact on resources was not included in scenarios for consideration. This will be included in future versions of the MTFS.
3	Medium	• The run rate and pressure on General Fund unearmarked reserves needs to be continually assessed, especially given the cumulative impact of under-delivery on saving plans.	Closely monitor the run rate and pressure on GF unearmarked reserves given the cumulative impact of under-delivery on saving plans. **Management response** • Accepted, the Council has improved budget monitoring reports to include the impact of the forecast position on the General Fund. The MTFS and budget monitoring reports will be further developed to show the longer term impact on the General Fund if savings / income generation plans do not fully materialise.

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

Recommendations – VFM Conclusion

	Assessment	Issue and risk	Recommendations
4	●	• The Council faces significant challenges to restore the financial reporting cycle to expected timescales, and to achieve earlier closedown in line with Government regulations. The lack of a timely audited outturn position and Statement of Accounts is prohibitive to management and members making fully informed decisions.	Ensure the timeliness of the financial statements is improved with the aim of producing accounts with high quality supporting working papers within statutory deadlines **Management response** • Accepted, the Council has made significant steps towards embedding a permanent finance team with the capability of delivering timely financial statements with the capability of delivering high quality supporting working papers within statutory deadlines. Unfortunately the legacy issues and cyber attack have delayed the Council getting to a place where these deadlines can be met. The Council is confident however that it has the team capable of bringing the financial statements up to date.
5	●	• We concluded that there were weaknesses in the Council's arrangements for informed decision making in implementing internal control weaknesses identified from both Internal, external audit reports and from Annual Governance Statement Action Plans. The date of overdue recommendations includes those outstanding since 2016 and is indicative of weaknesses in informed decision making in the Council's ability to implement actions in a timely matter on known internal control weakness areas. • We have also concluded that there were weaknesses in the Council's arrangements for implementing the ICT Strategy and business continuity planning processes recommendations identified from Internal Audit Reviews, which links to the informed decision-making criteria.	Continue to review all outstanding audit recommendations and AGS governance related weaknesses actions, especially those related to ICT and business continuity and regularly update Covalent with progress and implementation of improved controls **Management response** • Accepted, the Council has made significant progress with implementing audit and AGS recommendations in a timely manner but will continue to focus on all outstanding audit recommendations and AGS governance related weaknesses actions, especially those related to ICT and business continuity.
6	●	• The skills gap at qualified accountant level within the Finance Department was addressed through the use of contractors throughout 2017/18. However, this carried a financial cost in terms of expensive contractors and significant additional audit fees, which is inconsistent with sustainable resource deployment. • We concluded that there were weaknesses in the Council's arrangements for planning, organising and developing the workforce effectively to deliver strategic priorities.	Review the skills and capacity of Finance Team to ensure it can deliver internally or procure the appropriate people to enable the Council to produce technically sound financial statements. **Management response** The Council has made significant steps towards embedding a permanent finance team with appropriate skills to produce technically sound financial statements as set out earlier in this report. Significant training to all the finance team has been provided over the past 18 months and the Council is confident that the team can bring the financial statements back in line with the statutory deadlines; producing technically sound financial statements.

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

Recommendations – Follow up of prior year

We identified the following issues in the audit of Copeland Borough Council's 2016/17 financial statements, which resulted in 22 recommendations being reported in our 2016/17 Audit Findings report. Management has implemented some of our recommendations and those still outstanding have been highlighted in Appendix A.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	Partial	Agree response times for external audit queries and sample requests and put in place arrangements to ensure that these can be met.	A 3 working day timetable has been put in place to meet external audit queries and sample requests. To ensure delivery of this the finance team is at full capacity, there is a clarity of roles and responsibilities within the team and working papers will be prepared and reviewed in advance of the audit and the team. In part response times to audit requests have improved but in some areas we have experienced delays such as mapping of audit adjustments. We recognise that there has been a higher volume and complexity of issues raised, together with a lower audit materiality (meaning higher sample volumes) during the 2017/18 audit which will have put additional pressure on the Finance Team to respond promptly to audit requests. This should diminish in future years.
2	✓	Ensure that the General Ledger is properly configured and that the correct detail codes are used to bring forward balances correctly to the new financial year.	The General Ledger codes have been reviewed to ensure that it is properly configured and that the correct detail codes are used to bring forward balances correctly to the new financial year.
3	✓	Review data submitted to the Actuary for IAS 19 reporting and ensure that there are reasonable estimates for known events such as voluntary redundancies and other exit packages.	Completed for subsequent years.
4	X	Provide clear instructions to the Valuer including the format of the final valuation report. The final valuation report should clearly identify the assets that have been revalued and the aggregate value of the individual assets. Componentisation schedules should be included where required.	This has not been implemented and has been raised in Appendix A.
5	X	Retain records of all communications and data submissions to Management experts and make these available as part of the working papers provided for audit.	Not all communications with experts was available as part of the working papers provided for audit. Eg Link asset services fair value calculations.

Assessment
✓ Action completed
X Not yet addressed

Recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6	✓	Ensure that disclosures on exit packages include all required elements such as settlements agreed but not paid in year, and associated actuarial strain costs.	Discussed with the finance team and included in the closedown timetable.
7	X	Agree working paper requirements with the external auditor. These should include: • analytical review of figures in the primary statements; • documentation to support critical judgements and estimates; • consideration of whether there may be material discrepancies between current value and carrying value for assets which have not been revalued; and • cash flow projections to evidence going concern.	The external auditor's working paper requirements have been incorporated into the closedown timetable. There has been some improvement in working papers however key elements listed alongside are still outstanding.
8	X	Review cut-off arrangements to ensure that there are appropriate procedures in place to identify income and expenditure which should be accrued at year end.	Cut off procedures reviewed and discussed with the Leadership Management Group, also review of accruals to ensure accuracy. Training of finance staff for the 2018/19 and 2019/20 closedown has been undertaken and finance review of all year end transactions. This has not been fully implemented and has been raised in Appendix A.
9	✓	Review the accounting treatment adopted for Home Improvement Loans and consider write-off where appropriate.	Home Improvement Loans were judged to be largely uncollectable and have been written off in the 2017/18 financial statements.
10	X	Ensure that there is a clear timetable in place for the production and review of control account reconciliations. The format of reconciliations should enable the nature and validity of reconciling items to be determined, and senior officer review should be properly evidenced.	Reconciliation procedures were affected by the August 2017 cyber attack and subsequent recovery actions. The Bank Reconciliation module will be implemented by the end of December 2020. There remains scope for the format of reconciliations to be improved.

Assessment
✓ Action completed
X Not yet addressed

Recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
11	✓	Ensure that journals are properly authorised in line with the Council's policy.	All journals tested in the audit were properly authorised.
12	Partial	Develop a disaster recovery plan and perform a test of this plan at the earliest possible convenience.	This work has been started as part of our wider Active Cyber Resilience Plan. The Council's two cyber-security apprentices are working on this. Current target for completion is 31 March 2021. Disaster recovery Plans are part of new ICT Strategy and will be part of the new ICT Programme Action Plan. This activity forms part of the ICT Strategy draft currently with CLT for review.
13	X	Put in place a formalised process to create new user accounts. New Active Directory access required as a result of new employees joining the Council should be requested through a standardised Active Directory New User Form. This form should capture all relevant details to create an Active Directory account and should be tracked using an IT Helpdesk ticketing system.	New starters process documented in confluence to IT team to use. Review of the AUP is underway.
14	X	Revoke all logical access within Active Directory belonging to terminated personnel (i.e. "leavers") in a timely manner. This requires (a) timely, proactive notifications from HR of leaver activity for anticipated terminations and (b) timely, occurrence notifications for unanticipated terminations. Security administrators of financially critical applications should then use these notifications to either end-date user accounts associated with anticipated leavers, or immediately disable user accounts associated with unanticipated leavers.	Partially implemented – when information is received from HR a full check to Active Directory is undertaken and removal of terminated personal. However there have been instances when ICT has not been informed, and ICT is working with HR to resolve.
15	X	Ensure that there is a clear process in place which ensures that the Legal Department notifies the Finance Department promptly, and with supporting evidence, when a Community Asset Transfer takes place so that these can be correctly accounted for in the financial statements (recommendation outstanding from last year).	Evidence remained of transfers being coded to the wrong year.

Assessment
✓ Action completed
X Not yet addressed

Recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
16	✓	Consider a review of internal financial mapping so that services are summarised under an appropriate segmental heading.	Progress made in internal financial mapping.
17	X	Provide a clear analysis of the actual savings achieved against the target efficiency savings in reports to Members.	Reports to Members were intermittent during 2017/18 as reported in the VFM conclusion section of this report. We recognise an improvement however at the time of this Audit Findings Report being issued (July 2020).
18	✓	Review capital programme monitoring arrangements so that the reports contain a realistic programme of capital expenditure to be achieved in the year and an accurate forecast of capital expenditure against budget.	Significant progress has been made towards this in 2017/18, with projected re-programming of expenditure into the following year identified and approved on a rolling basis throughout the year, in the monitoring reports presented to Executive and scrutinised by Audit & Governance Committee. The effectiveness of this will be reviewed once the outturn figures for 2017/18 are known and any enhancements required will be built into the monitoring reports throughout 2018/19.
19	✓	Develop a clear options appraisal and plan to permanently secure appropriately qualified accountancy staff to fill the posts currently covered by interim appointments.	Permanent appointments now made and no reliance upon interim appointments.
20	X	Review all outstanding Internal Audit recommendations and regularly update Covalent with progress and implementation of improved controls.	A significant number of overdue high priority Internal Audit recommendations remained outstanding at 31 March 2018 as reported in the VFM conclusion section of this report. Management however confirm that reports to the Audit Committee now show a much lower number of outstanding audit recommendations. The position reported was reflective of a time when there was a cyber attack and high staff turnover.
21	✓	Include a status report of Internal Audit recommendations and actions as a standard agenda item on the CLT monthly meetings.	Standard item on Wider CLT monthly agenda.
22	X	Ensure the timeliness of the financial statements is improved with the aim of producing accounts with high quality supporting working papers within statutory deadlines.	This has not yet been achieved but the aim is to bring the 2020/21 accounts production and audit back into line with the statutory timetable.

Assessment
✓ Action completed
X Not yet addressed

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