

The Audit Findings for Cumbria Local Government Pension Scheme

Year ended 31 March 2019

July 2019



Contents



Your key Grant Thornton team members are:

Gareth Kelly

Key Audit Partner

T: 0141 223 0891 or 0788 045 6154

E: gareth.kelly@uk.gt.com

Richard Anderson

Manager

T: 0141 223 0753 or 07920 021291

E: richard.j.anderson@uk.gt.com

Fay Hutchinson

In-Charge Auditor

T: 0161 9536954

E: fay.a.hutchinson@uk.gt.com

Section

| | Page |
|----------------------------------|-------------|
| 1. Headlines | 3 |
| 2. Financial statements | 4 |
| 3. Independence, ethics and fees | 11 |

Appendices

| | |
|--|----|
| A. Action plan | 13 |
| B. Follow up of prior year recommendations | 14 |
| C. Audit adjustments | 15 |
| D. Fees | 17 |
| E. Audit Opinion | 18 |

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

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cumbria Local Government Pension Scheme ('the Pension Scheme') and the preparation of the Pension Scheme's financial statements for the year ended 31 March 2019 for those charged with governance.

| | | |
|-----------------------------|---|--|
| Financial Statements | <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Scheme's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Pension Scheme and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. | <p>Our audit work was completed on site during June and July. Our findings are summarised in this report. We have identified one estimation uncertainty of £6.1 million. The Scheme have not adjusted for this issue on the grounds of materiality. Audit adjustments are detailed in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is now complete and there are no matters which would require modification of our audit opinion (Appendix E). Our audit report opinion will be unmodified.</p> |
|-----------------------------|---|--|

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. The Accounts have been produced to a very high standard and the finance team have produced good working papers and have been responsive to our audit queries.

Summary

Overview of the scope of our audit

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

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

Audit approach

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

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

We have not had to alter or change our audit plan, as communicated to you on 14 March 2019.

Conclusion

We have completed our audit of your financial statements and will issue an unqualified audit opinion on 30 July 2019. Appendix E includes the audit report opinion we propose to issue.

Our approach to materiality

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

Materiality calculations remain the same as reported in our audit plan.

| | Pension Fund Amount (£) | Qualitative factors considered |
|--|-------------------------|--|
| Materiality for the financial statements | 26,321,000 | We have determined materiality at 1% of Net Assets as at 31 December 2018. This is in line with the industry standard and reflects the risks associated with the Scheme's financial performance. |
| Performance materiality | 19,741,000 | This is 75% of materiality and reflects our experience on prior year audits. |
| Trivial matters | 1,316,000 | A standard level of 5% of materiality has been used. This is our reporting threshold for any errors identified. |

Significant findings – audit risks

| Risks identified in our Audit Plan | Commentary |
|--|--|
| <p>1 The revenue cycle includes fraudulent transactions (rebutted)</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> | <p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Scheme, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because;</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities including Cumbria County Council and Cumbria Local Government Pension Scheme, mean that all forms of fraud are seen as unacceptable. |
| <p>2 Management override of controls</p> <p>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.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p> | <p>Auditor commentary</p> <p>We have;</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determine the criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>During our testing we identified a number of journals which have a user ID that matches a member of the Administering Authority's IT department. Management confirmed that this was generated as a result of an IT upgrade in September 2018 and is isolated to the journal upload tool. We are currently performing additional testing of journal entries, given the identification of this journal control weakness as well as review processes.</p> <p>Conclusion</p> <p>Our testing in this area is complete and we have not identified any further issues in respect of this risk.</p> |

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

3

The valuation of Level 3 investments is incorrect

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments valuations lack observable inputs and require a significant degree of judgement to reach an appropriate valuation at year end.

These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved (£0.555 billion in the 2017/18 accounts) and the sensitivity of this estimate to changes in key assumptions.

Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

Auditor commentary

In response to this risk we have;

- evaluated management's processes for valuing Level 3 investments;
- reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met;
- for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those figures to the values as at 31 March 2019 with reference to known movements in the intervening period; and
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert.

Our audit work has identified an estimation uncertainty of £6.1 million in respect of the valuation of 12 investment manager portfolios that impact upon level 3 investments. The full detail on this issue is provided on page 16 and the Scheme has not amended for this on the grounds of materiality.

Significant findings - Going concern

Our responsibility

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

Going concern commentary

Management's assessment process

The Pension Scheme has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists. They have considered the Scheme's funding position and any communications with the relevant Department and Secretary of State.

Auditor commentary

- The Pension Scheme's use of the going concern basis of accounting is appropriate.
- The Pension Scheme's assessment of going concern was communicated to us on 7th June 2019 in the response from the Audit and Assurance Committee Chair of Cumbria County Council and Cumbria Local Government Pension Scheme.
- The Scheme has sufficient assets to meet liabilities as they fall due. The last triennial valuation, as at 31 March 2016 reports a funding level of 91%.

Work performed

Detail audit work performed on management's assessment

- No material uncertainty identified.
- Sufficient assets to meet liabilities as they fall due. The last triennial valuation, as at 31 March 2016 reports a funding level of 91%.
- The Pension Scheme continues to operate as usual with contributions and investment income being received and benefits being paid.

Concluding comments

The Pension Scheme's use of the going concern basis of accounting is appropriate.

- Our opinion is unmodified in respect of the going concern conclusion.
-

Significant findings - other issues

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

| Issue | Commentary |
|---|--|
| <p>1 McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p> <p>Discussion have been ongoing through June and July in the sector regarding the impact of the ruling on the financial statements of Local Government bodies and Pension Funds.</p> | <p>Impact of the McCloud judgement</p> <p>The LGPS Scheme Advisory Board (with the consent of the Ministry of Housing, Communities and Local Government) commissioned GAD to prepare an assessment of the financial impact of the McCloud judgement on an LGPS scheme-wide basis to inform the financial reporting of participating entities. The report shows the estimates of the cost of the remedy if the LGPS underpin was found to result in unlawful age discrimination. With the Government having been denied leave to appeal the ruling in June 2019, the Pension Scheme's view is that it is now probable that the McCloud judgement impacted upon the calculations as at 31 March 2019.</p> <p>Auditor commentary</p> <p>As a result of the ruling we have worked with the County Council as Administering Authority of the Cumbria Local Government Pension Scheme to consider the implications and as a result the Council has commissioned a further actuarial assessment to include the impact of the case. We have carried out additional work locally and nationally to assess the approach and assumptions used by the actuary in providing this updated estimate.</p> <p>The Scheme has reviewed their judgements and treatment of the McCloud legal ruling, as the actuarial position of the fund note 23 in the draft financial statements did not originally include the impact of the case in the promised benefit figures provided by the Actuary.</p> <p>The Scheme requested the Actuary to perform a review of the impact of the McCloud case and the figures increased the Present value of past service liabilities by £18 million (IAS19 basis) and £14 million (Valuation basis). We have confirmed that the figures from the Actuary have been accurately reflected within the final set of financial statements in note 23.</p> <p>Conclusion</p> <p>The Pension Fund has adjusted its pensions liability in its financial statements note 23 Actuarial Position of Fund and our audit procedures have confirmed that it is not materially misstated.</p> |

Significant findings - other issues

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

| Issue | Commentary |
|--|--|
| <p>2 IT General Controls (ITGC)</p> <p>When assessing the IT general control environment we make inquiries of the Scheme to allow us to identify the key controls in operation. An example of a key ITGC control is the use of unique user ID's and passwords to set and restrict access rights to IT systems to authorised users. During our planning work we did not identify any issues with the IT general controls from our discussions with key Scheme employees.</p> <p>During our testing of journals we became aware of a control issue that impacts our initial assessment of the IT general controls and is reported in Appendix A. We understand that the issue is isolated to one specific area following an upgrade to e5 in September 2018.</p> <p>Following the update authorised users who have access to the journal upload tool via their individual computers are able to "log in" to journal upload and post a journal without entering either their own user id or a password. Further more there is no requirement to be logged into e5 meaning it is not possible to verify the originating poster using an IT control.</p> | <p>Auditor view</p> <p>We consider this to be a key weakness in the operation of the IT general controls of the Scheme. See Appendix A for our recommendations on journal IT related controls.</p> <p>We have not placed reliance on IT General Controls during the 2018/19 audit and have undertaken further testing, which did not identify any further issues in respect of this control weakness.</p> <p>We are currently undertaking additional testing to confirm that the issue was isolated to the journal upload tool.</p> <p>User of the journal upload tool should be reminded of the requirement to enter their unique user ID details. If any unusual user ID details are identified during the journal review process it should be clearly documented that the reviewer has challenged the preparer of the journal and the results of this challenge.</p> <p>We understand that a patch has now been developed, which will require the user of the journal upload to log in using their unique user name and password. Future upgrades should be fully tested prior to being implemented to ensure the adequacy of IT general controls. The patch has been in development since the issue was identified in September 2018 and is now ready for rollout in the week commencing 29th July.</p> |

Significant findings – key judgements and estimates

| | Summary of management's policy | Audit Comments | Assessment |
|----------------------------|--|---|---|
| Level 3 investments | <p>The Pension Scheme has investments in unquoted equity investments, limited partnerships and property. These investments in total are valued on the Net Assets Statement as at 31 March 2019 at £680.385 million. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management use various valuation techniques that require significant judgement in determining appropriate assumption The value of the investment has increased by £125 million in 2018/19, with new investment commitments made to Pantheon Private Equity, Healthcare Royalty Partners and SL capital.</p> | <p>Management determine the value of Level 3 Investments through placing reliance on the expertise of the funds and investment managers. As such we have sought confirmations of year end valuations.</p> <p>Our audit work has identified an estimation uncertainty of £6.101 million in respect of the valuation of 12 investment manager portfolios that impact upon level 3 investments. The full detail is on this issue is provided on page 16 and the Scheme has not amended for this on the grounds of materiality.</p> |  |
| Level 2 investments | <p>The Pension Scheme has investments in pooled funds where the underlying assets are quoted assets such as equity and fixed interest bonds. These assets are valued on the Net Assets Statement as at 31 March 2019 at £1.178 billion. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management rely on the information which they are given from the various fund managers and engage the services of a property valuer for direct property. The value of the investment has increased by £262.056 million in 2018/19 due to the transition of the schemes actively managed UK equity portfolio with Schrodgers Investment Management into units in the Border to Coast UK Equity Fund in December 2018.</p> | <p>Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers and a property valuer. As such we have sought confirmations of year-end valuations. We have found no issues with this testing and are satisfied that the estimates are appropriately disclosed in the accounts.</p> <p>Our work on Level 2 investments included a review of the transition of the Scheme's UK equities to Border to Coast Pensions Partnership Limited. We have reviewed and agreed the accounting entries around this transfer and are satisfied that the Scheme's holding with Border to Coast Pensions Partnership Limited is appropriately valued and classified in the statement of accounts.</p> <p>Our work on Level 2 investments also included a review of the Scheme's Equity Protection Instrument. We are satisfied that the Black-Scholes model is an appropriate model to value this instrument and this it has been correctly accounted for in the Scheme's investment assets.</p> |  |

Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

Other communication requirements

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

| Issue | Commentary |
|---|---|
| ① Matters in relation to fraud | We have previously discussed the risk of fraud with the Audit and Assurance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit. |
| ② Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| ③ Matters in relation to laws and regulations | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| ④ Written representations | A letter of representation has been requested from the Pension Scheme, which is included in the Audit and Assurance Committee papers. |
| ⑤ Confirmation requests from third parties | We requested from management permission to send confirmation requests to all Investment managers and the Scheme's Bank. This permission was granted and the requests were sent and returned with positive confirmations. |
| ⑥ Disclosures | Our review found no material omissions in the financial statements. We noted that the Key Management Personnel disclosure in Note 16, does not disclose post employment benefits on an IAS19 basis, as required by the CIPFA Code. Whilst the impact of this is trivial, the Scheme should ensure the note is prepared on this basis in future years. |
| ⑦ Audit evidence and explanations/significant difficulties | All information and explanations requested from management was provided. |
| ⑧ Matters on which we report by exception | We are required to give a separate opinion for the Pension Scheme Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We will issue our 'consistency' opinion on the Pension Schemes Annual Report on 30 July 2019. |

Independence, ethics and fees

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms). In this context, we disclose the following to you:

We confirm that there is one significant matter that could appear to have an impact on our independence, objectivity and integrity, and as your auditors we are required to draw it to your attention. Richard McGahon replaced Angela Pieri as the external audit manager for Cumbria County Council, the Administering Authority, on 1 June 2018. On 9 July 2018, Richard McGahon applied for the post of Head of Internal Audit at Cumbria County Council and was successfully appointed to that post on 10 December 2018. In July 2018, the Engagement Lead in consultation with the Engagement Quality Control Reviewer at the time and our Central Ethics Team, made the decision to immediately remove Richard McGahon from the Administering Authority audit engagement to safeguard our independence, objectivity and integrity. In this short period as manager Richard McGahon's only work on the 2017/18 Administering Authority audit and this was to carry out an interim review of the audit team's work. An additional safeguard was put in place whereby both the Engagement Lead and the Engagement Quality Control Reviewer carried out a review of all the work that Richard McGahon had reviewed. Richard McGahon had no involvement in the 2017/18 Scheme audit.

We consider that, given Richard McGahon has no involvement in accounts preparation, and as our team does not place direct reliance on internal audit work, the remaining perceived threat to independence, objectivity and integrity is low.

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

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

Details of fees charged are detailed in Appendix D.

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.

| | Fees £ | Threats identified | Safeguards |
|--|-----------------------|---|---|
| Non-audit related | | | |
| IAS19 assurance procedures for other bodies admitted to the pension fund, including the additional work to deal with the impact of Mc Cloud. | Estimate 5,000 TBC | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £19,957 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. |

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

Action plan

We have identified 1 recommendation for the Scheme as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Assessment | Issue and risk | Recommendations |
|------------|--|--|
| 1 | <p>Journal upload tool</p> <ul style="list-style-type: none"> Following the e5 upgrade in September 2018, the finance team and IT became aware that it was possible for users to “log in” to journal upload and post a journal without entering either their own user id or a password. There was also no requirement to be logged into e5, which meant there was no record of the originating poster where the poster let the tool revert to the default poster which in this case was a member of the IT team or another user if the poster chose another user. The Systems team made Finance staff aware of the issue in mid September 2018, it was noted that there was a risk but it was felt that because of the other mitigating controls that are in place the risk of any misstatement of the Accounts was very low. | <p>Recommendations</p> <ul style="list-style-type: none"> Users of the journal upload tool should be reminded of the requirement to enter their unique user ID details. (If any unusual user ID details are identified during the journal review process it should be clearly documented that the reviewer has challenged the preparer of the journal and the results of this challenge). Ensure the pending IT upgrade is fully tested prior to being implemented to ensure the adequacy of IT general controls. (We acknowledge that work had been ongoing on the development of the patch during the latter part of 2018/19 and is now ready for deployment, which will require user of the journal upload to log in using their unique user name and password). <p>Management response</p> <p>The Systems team, ICT and the software supplier have continued to work on addressing the user id issue since September 2018. A solution has been developed and is in the final stages of testing. This solution will force a user to enter a log on and password before they can use the spreadsheet upload tool. This solution is due to be deployed from week commencing 29th July 2019. In relation to the mitigating controls management placed reliance on the following existing controls:</p> <ul style="list-style-type: none"> Review and sign off of all LGPS Journals by the Group Finance Manager (GFM) Pensions to ensure clear segregation of duties as the GFM does not post journals Officer and Member scrutiny of formal mid year and outturn performance and budget reports. Any variances against budget are explained. Officer and Member scrutiny of annual accounts. Detailed analytical review of financial information (mid year and outturn performance and budget reports and annual accounts). |

Controls

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

Follow up of prior year recommendations

We identified the following issue in the audit of Cumbria Local Government Pension Scheme's 2017/18 financial statements, which resulted in 1 recommendations being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

| | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|-------------------|---|--|--|
| <p>1</p> <p>✓</p> | <p>Cumbria Local Government Pension Scheme provides certain information to the scheme actuary on which scheduled and admitted bodies rely on in preparing their accounting statements.</p> <p>Auditors of admitted and scheduled bodies request us, as scheme auditor, to carry out a programme of work to provide some assurances over the accuracy and completeness of the information provided to the actuary for this purpose.</p> <p>A number of scheduled and admitted bodies opted to re-run their IAS19 figures based on 'actual' cash flows and investment returns in May 2018. We identified that the member numbers submitted by the scheme to the actuary to support the production of 're-run' IAS19 figures were incorrect. The actuary subsequently confirmed that the member numbers submitted did not have an impact on the IAS19 accounting figures produced. The errors referenced were identified by the audit team reviewing movements between figures submitted for the re-run in March 2018, figures submitted for the initial run in February 2018 and figures submitted for 2016/17.</p> <p>We also identified that, the cash flow data submitted for the re-run for one scheduled body was incomplete. This resulted in the scheduled body having to re-run its IAS19 figures in July 2018.</p> <p>Recommendation</p> <ul style="list-style-type: none"> • Complete a reasonableness check of all information prior to its submission to the actuary for the production of IAS19 accounting figures. • Ensure that scheduled and admitted bodies formally sign off information submitted to the actuary both for the initial and any re-run of IAS19 accounting figures. | <p>Management Response</p> <p>This has been addressed. In response to the issues identified by Grant Thornton in their audit of the 2017/18 financial statements a review of the process for collating information for IAS19 calculations (including re-runs) was undertaken. As a result of this a number of additional procedures were introduced to mitigate the risk of similar errors occurring in the future. These included:</p> <ul style="list-style-type: none"> • undertaking a review of membership numbers and payroll data before each IAS19 run with a separate manual check being undertaken where the figures differ by more than 20% from the previous year; and • undertaking a manual check of all re-run IAS19 calculations to ensure that these reconcile to data submissions signed off by employers. If any changes are proposed to the data submissions already signed off by employers, these are brought to the employer's attention and further sign-off is required prior to their being submitted to the scheme actuary. <p>It should be noted that, whilst employers are required to include the IAS19 valuation of their Pension Fund assets and liabilities within their balance sheet, these do not affect the contributions payable by the employer to the Pension Fund.</p> | |

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

There are no adjusted misstatements.

Disclosure changes

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

| Disclosure omission | Detail | Adjusted? |
|---|---|-----------|
| Note 23 – Actuarial Position of the Fund | <p>The Scheme reviewed their judgements and accounting treatment for the McCloud legal ruling, as the draft financial statements did not include at that time the impact of the case in the present value of past service liabilities figure provided by the Actuary. With the permission to appeal being unsuccessful in June 2019, the Pension Scheme officer's view was updated as it was more probable that the McCloud judgement impacted upon the promised benefits calculations as at 31 March 2019.</p> <p>The Scheme requested the Actuary to perform a review of the impact of the McCloud case and the figures changed in the Actuarial Position of the Fund note 23 to increase the present value of past service liabilities on a valuation basis by £14 million from £2.731 billion to £2.745 billion and by £18 million on an IAS19 basis from £3.535 billion to £3.553 billion.</p> <p>Following this update, the Contingent Liability disclosure relating to the McCloud case was removed from Note 17 (Contingent Liabilities and Contractual Commitments). Note 21 (Events after the Reporting Date) was also updated to reflect the July update position on the McCloud case.</p> | ✓ |
| Presentation and consistency | <p>A small number of minor changes have been made to the wording and presentation of existing disclosure notes in the financial statements to improve their clarity and consistency. None of them are significant to warrant disclosing separately.</p> | ✓ |

Audit Adjustments

Impact of estimation uncertainty

The table below provides details of the one estimation uncertainty identified during the 2018/19 audit which has not been reflected in the final set of financial statements. The Audit and Assurance Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Pension Fund Account £'000 | Net Asset Statement £'000 | Impact on total net assets £'000 | Reason for not adjusting |
|--|----------------------------|---------------------------|----------------------------------|--|
| <p>1 The valuation in the financial statements for 12 investment managers was understated by £6.1 million (absolute difference £7.556 million), as the actual 31 March 2019 valuations had not been used. Net Investment Assets in the draft accounts were valued at £2.698 billion, our audit work identified that the valuation should have been £2.704 billion. For 12 investment managers, an estimate had been used by the custodian for the 31 March 2019 position, using known cash movements. It is usual practice for certain types of investment to have longer lead times in the reporting to the scheme and custodian. More up to date information was available before the accounts were authorised for issue so investment values could have been amended.</p> | | | | The Fund holds investments in alternative pooled funds such as infrastructure, private equity and private loans. These are illiquid assets as they are not traded regularly and have no readily observable market prices. In line with usual practice the valuations for these assets are provided by the managers of the funds up to three months or more behind the confirmed valuations of more liquid investment assets. These timescales are such that some final valuations are received after the accounts have been submitted for audit. As such, in order to meet accounting deadlines, estimated values of such assets are used. |
| <p>Investment Assets Profit/ (losses) on disposal of investments and changes in the market value of investments</p> | 6,101 | 6,101 | | The estimated values of the assets are not materially different from those reported in the accounts, they represent an understatement of assets by approx. 0.2% compared to the values published in the draft accounts. Given the general volatility of asset values at any point in time, the Fund considers it not necessary to adjust for such immaterial differences. This is consistent with the approach taken in previous years. |
| Overall impact | £6,101 | £6,101 | £6,101 | |

Fees

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

Audit Fees

| | Proposed fee | Final fee |
|---|----------------|----------------|
| Pension Scheme Audit | 18,957 | 20,957 |
| Total audit fees (excluding VAT) | £18,957 | £20,957 |

We propose an additional fee of £2,000 to take account of work carried out on the schemes Equity Protection instrument and in assessing the impact of the McCloud Judgement on the Scheme's Present value of past service liabilities.

Non Audit Fees

| Fees for other services | Final fee £'000 |
|---|--------------------|
| Audit related services: | Nil |
| IAS19 assurance procedures for other bodies admitted to the pension fund | 5,000 |
| | 5,000 |

The IAS19 fee is for our responsibilities in providing written assurances to auditors for ten bodies within the Public Sector Audit Appointments (PSAA) regime on controls over information provided by the Pension Fund to the actuary.

All additional fees are still subject to Public Sector Audit Appointments approval.

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Cumbria County Council on the pension scheme financial statements of Cumbria Local Government Pension Scheme

Opinion

We have audited the financial statements of Cumbria Local Government Pension Scheme (the 'pension scheme') administered by Cumbria County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Pension Fund Account for the year ended 31st March 2019, the Net Assets Statement as at 31st March 2019 and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance (S151 Officer) use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Finance (S151 Officer) has not disclosed in the pension scheme's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension scheme for a period of at least twelve months from the date when the pension scheme's financial statements are authorised for issue.

Other information

The Director of Finance (S151 Officer) is responsible for the other information. The other information comprises the Pension Scheme Annual Report and information included in the Cumbria County Council Statement of Accounts and Annual Governance Statement, other than the Cumbria Local Government Pension Scheme Financial Statement, our auditor's report thereon and our auditor's report on the Administering Authority's financial statements. Our opinion on the pension scheme's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Audit opinion

Opinion on other matters required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension scheme's financial statements and our knowledge of the pension scheme, the other information published together with the pension scheme's financial statements in the Pension Scheme Annual Report, the Cumbria County Council Statement of Accounts and the Cumbria County Council Annual Governance Statement for the financial year for which the pension scheme financial statements are prepared is consistent with the pension scheme financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Director of Finance (S151 Officer) and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on pages 24 to 25, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Finance (S151 Officer).

The Director of Finance (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the pension scheme's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance (S151 Officer) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Audit opinion

Use of our report

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

To be signed

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

Glasgow

To be dated

Audit opinion- Annual Report

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of Cumbria County Council on the consistency of the pension scheme financial statements of Cumbria Local Government Pension Scheme included in the Pension Scheme Annual Report

Opinion

The pension scheme financial statements of Cumbria Local Government Pension Scheme (the 'pension scheme') administered by Cumbria County Council (the "Authority") for the year ended 31 March 2019 which comprise the Pension Fund Account for the year ended 31st March 2019, the Net Assets Statement as at 31st March 2019 and the notes to the pension scheme financial statements, including a summary of significant accounting policies are derived from the audited pension scheme financial statements for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension scheme financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

Pension Scheme Annual Report – Pension scheme financial statements

The Pension Scheme Annual Report and the pension scheme financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension scheme financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated **to be dated**.

Director of Finance (S151 Officer) responsibilities for the pension scheme financial statements in the Pension Scheme Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Director of Finance (S151 Officer) of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension scheme financial statements in the Pension Scheme Annual Report are consistent, in all material respects, with the audited pension scheme financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Audit opinion- Annual Report

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

To be signed

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

Glasgow

To be dated



© 2019 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.