

The Audit Findings for Cumbria Local Government Pension Scheme

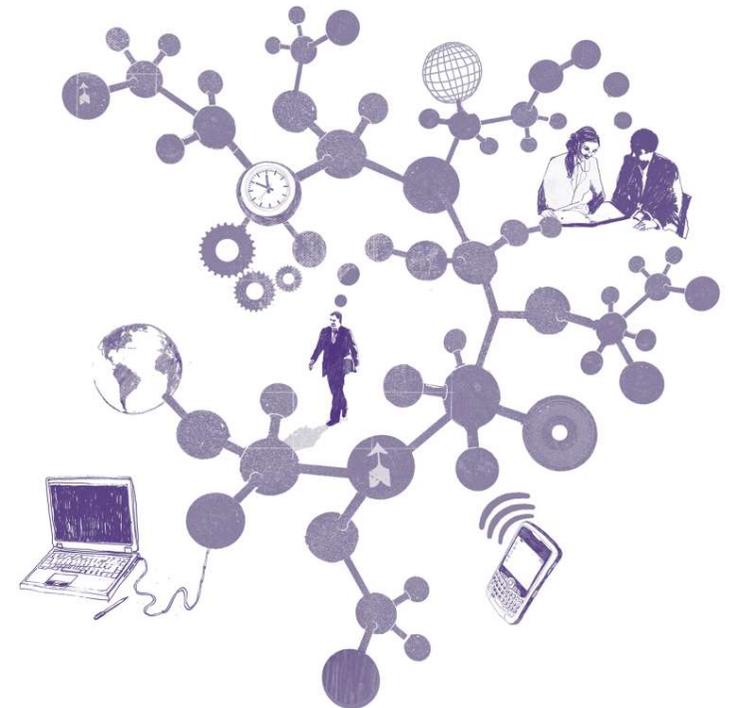
Year ended 31 March 2017

September 2017

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25 September 2017

Dear Members

Audit Findings for Cumbria Local Government Pension Scheme for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance, which in the case of Cumbria Local Government Pension Scheme is the Audit and Assurance Committee, to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

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 primarily 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 any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Gareth Kelly
Engagement lead

Chartered Accountants

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

We plan to give an unqualified opinion on the financial statements. We have not identified any adjustments affecting the primary statements, and any adjustments identified are to memorandum disclosure notes only, all of which management have amended.

We are pleased to report that the Pension Scheme officers have produced good quality financial statements for 2016/17, in terms of both compliance with the CIPFA Code of Practice and supporting working papers.

Purpose of this report

This report highlights the key issues affecting the results of Cumbria Local Government Pension Scheme ('the Scheme') and the preparation of the Scheme's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Scheme's financial statements give a true and fair view of the financial position of the Scheme.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 20 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- completion of the final specialist partner review;
- reviewing the final version of the financial statements;
- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments that impact upon primary statements and any adjustments identified are within memorandum disclosure notes only, all of which management has amended in the final set of financial statements.

Adjustments noted within memorandum disclosure notes are as follows:

- note 10h fair value hierarchy had £10.413 million categorised as level 2 investments, when the correct category was level 1. The comparator for 2015/16 of £8.813 million was also amended; and
- pension officers identified at the start of the audit two errors within the mix of note 10i for the reconciliation of fair value measurements within level 3. This included a transposition error and £3.72 million classified in the wrong heading.

We have also identified some other disclosure and presentational adjustments, and these are set out on page 19 of this report. Some other minor presentational adjustments recommended to improve the financial statements disclosures were also made by management, but these do not warrant separate reporting.

Other key messages arising from our audit of the Scheme's financial statements are:

- the Pension Scheme officers have produced good quality financial statements for 2016/17, in terms of both compliance with the CIPFA Code of Practice and supporting working papers;
- the Pension Scheme officers responded to audit queries timely including those relating to the technical review questions;
- the cyclical specialist technical review of the financial statements raised minor issues which management amended; and
- there are no recommendations made as part of our report.

We anticipate providing a unqualified audit opinion in respect of the financial statements and this is included at Appendix A. We have also included our anticipated unqualified opinion on the Annual Report at Appendix B.

Controls

Roles and responsibilities

The Scheme's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 any control weaknesses, we report these to the Scheme.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Assistant Director – Finance and the pensions finance team.

Acknowledgement

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

Grant Thornton UK LLP

September 2017

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises the findings of the audit, the final level of materiality used, and the work undertaken against the risks we have identified. We also conclude on the accounting policies, estimates and judgments used.

There are no significant issues to raise. We have not identified any adjustments affecting the primary statements, and any adjustments identified are to memorandum disclosure notes only, all of which have been amended by management.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our Audit Plan, we determined overall materiality to be £23.364 million, being 1% of net assets. We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £1.168 million. This remains the same as reported in our Audit Plan.

As we reported in our Audit Plan, we identified the following items where we decided that were sensitive and where lower materiality levels were appropriate. These remain the same as reported in our Audit Plan.

Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100,000
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As noted in our Plan, there are two presumed significant risks which are applicable to all audits, as set out below.

	Risks identified in our Audit Plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cumbria Local Government Pension 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 as the administering authority, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk for Cumbria Local Government Pension Scheme.</p>	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of accounting estimates, judgments and decisions made by management; • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation; and • review of unusual significant transactions. 	<p>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.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgments.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Audit findings against significant risks continued

We have also identified the following significant risk of material misstatement from our understanding of the entity. We set out below the work we have completed to address this significant risk.

	Risks identified in our Audit Plan	Work completed	Assurance gained and issues arising
3.	<p>Level 3 Investments – Valuation is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgmental matters. Level 3 investments by their very nature require a significant degree of judgment to reach an appropriate valuation at year end.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> gained an understanding of the process for valuing level 3 investments through discussions with relevant personnel from the Pension Scheme; performed walkthrough tests of the controls identified in the process; for a sample of investments, tested valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. This included reconciliation to the values at 31st March 2017 with reference to known movements in the intervening period; reviewed the qualifications of Scheme managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; 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; and reviewed the competence, expertise and objectivity of any management experts used. 	<p>Our audit work has not identified any issues relating to the valuation of level 3 investments.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. (Occurrence) Investment income not accurate. (Accuracy)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> gained an understanding of the processes for investment income through discussions with relevant personnel from the Pension Scheme; performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding; and reviewed the reconciliation of information provided by the Scheme managers, the custodian and the Pension Scheme's own records and sought explanations for variances. 	Our audit work has not identified any significant issues in relation to the risk identified.
Investment purchases and sales	Investment valuation not correct. (Valuation)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> gained an understanding of the processes for investment sales and purchases through discussions with relevant personnel from the Pension Scheme; performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding; and reviewed the reconciliation of information provided by the Scheme managers, the custodian and the Pension Scheme's own records and sought explanations for variances. 	Our audit work has not identified any significant issues in relation to the risk identified.

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments	Valuation is incorrect. (Valuation)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • gained an understanding of the process for valuing level 2 investments through discussions with relevant personnel from the Pension Scheme; • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding; • we have reviewed the reconciliation of information provided by the Scheme managers, the custodian and the Pension Scheme's own records and sought explanations for variances; and • for direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert. 	Our audit work has not identified any significant issues in relation to the risk identified.
Contributions	Recorded contributions not correct (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • gained an understanding of the process for contributions through discussions with relevant personnel from the Pension Scheme; • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding; • controls testing over occurrence, completeness and accuracy of contributions; and • rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefits payable	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • gained an understanding of the process for benefits payable through discussions with relevant personnel from the Pension Scheme; • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding; • performed controls testing over, completeness, accuracy and occurrence of benefit payments; • tested a sample of individual pension payments by reference to member files; and • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.
Member Data	Member data not correct. (Rights and Obligations)	<p>We have undertaken the following work in relation to this risk;</p> <ul style="list-style-type: none"> • gained an understanding of the process for member data administration through discussions with relevant personnel from the Pension Scheme; • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding, • controls testing over annual/monthly reconciliations and verifications with individual members, and • sample tested changes to member data made during the year to source documentation. 	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates and judgments

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgments made and included with the Scheme's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Contribution income: normal contributions for both employees and employers and bulk transfers are accounted for on an accruals basis. Individual transfers to the scheme are recognised on a receipts basis. Investment Income: the Scheme adopts several different recognition approaches dependent on the types of investment as disclosed within the financial statements. 	<ul style="list-style-type: none"> The revenue recognition policy is consistent with the prior period, meet the requirements of the Code of Practice on Local Authority Accounting and is in line with the example financial statements. There is limited judgment involved in revenue recognition as a result of: <ul style="list-style-type: none"> contributions rates are known in advance via the triennial valuation of the scheme; investment income following market trends and is overseen by the Custodian and transfers are subject to defined actuarial calculations; and there being agreement between the bodies. Our testing has not identified any inappropriate revenue recognition. 	 (Green)
Judgments and estimates	<p>Key estimates and judgments include;</p> <ul style="list-style-type: none"> Pension Scheme valuations and settlements, investment valuation, and provisions. 	<ul style="list-style-type: none"> Policies are consistent with the prior period, meet the requirements of the Code of Practice on Local Authority Accounting and are in line with the CIPFA example financial statements. Judgments are made regarding the present value of promised retirement benefits, the fair value of investments and the ability of debtors to pay. The Scheme employs an independent actuary, valuer and custodian and uses previous experience of debt recovery to inform judgments made . We have confirmed that the work of the actuary is in line with professional standards and regulation, and that they are a reliable source of estimation relating to the pension scheme liabilities. 	 (Green)

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators (Red)
-  Accounting policy appropriate but scope for improved disclosure (Amber)
-  Accounting policy appropriate and disclosures sufficient (Green)

Accounting policies, estimates and judgments continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	The Assistant Director – Finance as s151 Officer has a reasonable expectation that the services provided by the Scheme will continue for the foreseeable future. For this reason, the Scheme continue to adopt the going concern basis in preparing the financial statements.	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&I) 570). We have reviewed the Scheme’s assessment and are satisfied with management’s assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● (Green)
Other accounting policies	We have reviewed the Scheme's other accounting policies against the requirements of the CIPFA Code and accounting standards.	The financial statements included a disclosure note for contingent assets. Disclosure was added to accounting policies to include contingent assets. The Scheme's accounting policies are appropriate and consistent with previous years.	● (Green)

Assessment

- Marginal accounting policy which could potentially attract attention from regulators (Red)
- Accounting policy appropriate but scope for improved disclosure (Amber)
- Accounting policy appropriate and disclosures sufficient (Green)

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	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Assurance Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Pension Scheme.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from all external scheme managers and custodian for investment balances and requested management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. Minor adjustments were identified and amended by management to enhance existing disclosures as outlined below. A table was added into Note 23 Actuarial Position of the fund to disclose the relationship of the retirement benefits to net assets; into Note 14 Financial Instruments to disclose the foreign exchange risk sensitivity analysis; and into Note 10g Fair Value basis of valuation to disclose the sensitivity of level 3 investments.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report by exception where the Pension Scheme Annual Report is inconsistent with the financial statements. We did not identify any significant issues to report on this matter. We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial included therein are consistent with the audited financial statements. We reviewed the content of the Annual Report to ensure compliance with relevant technical guidance. We have not identified any issues from our work.

Internal controls

We considered and walked through the internal controls for Investments, Contributions, Benefits Payable, and Member Data as set out on pages 10 to 13 and the controls were found to be operating effectively.

We have no matters to report to the Audit and Assurance Committee.

"The purpose of an audit is for the auditor to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. We have not identified any issues that management are adjusting that impact upon the primary statements.

Unadjusted misstatements

We have not identified any issues that management are not adjusting that impact upon the primary statements.

Unadjusted misstatements in the previous year

The unadjusted misstatement of £3.751 million identified in the 2015/16 audit does not have an impact on the 2016/17 financial statements, as this related to asset valuations at 31 March 2016.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements. All of the adjustments identified in this section are within disclosure notes and there is no impact upon the primary financial statements.

Adjustment type	Value £'000	Account balance	Changes to the financial statements
1 Disclosure	n/a	Note 2 – Accounting policies	An accounting policy for contingent assets was added.
2 Classification	10,413 for 2016/17 8,813 for 2015/16	Note 10h – Fair value hierarchy	<p>£10.413 million of quoted pooled assets were categorised as level 2. The quoted pooled assets have been amended in the note to be classified as level 1.</p> <p>The 2015/16 comparator of £8.803 million was also amended from level 2 to level 1 for consistency, and to reflect the level 1 classification from the audited 2015/16 financial statements.</p>
3 Classification	3,720 7,845	Note 10i – Reconciliation of fair value measurement within level 3	<p>The classification within the note was incorrect due to two issues:</p> <ul style="list-style-type: none"> • purchases during the year for private/unquoted equity were overstated by £3.720 million, and the unrealised gains understated by £3.720 million. This was due to an error in the allocation of management expenses within the note, and • the realised and unrealised movements on investment property were transposed incorrectly. The amended financial statements record the £7.845 million unrealised gain and the £1.021 million realised loss in the correct lines. <p>Pension Scheme officers highlighted both of these amendments to the audit team at the start of the audit.</p>
4 Disclosure	n/a	various	<p>A table was added into the following notes to enhance existing disclosure:</p> <ul style="list-style-type: none"> • Note 23 Actuarial Position of the fund - to disclose the relationship of the retirement benefits to net assets • Note 14 Financial Instruments - to disclose the foreign exchange risk sensitivity analysis; and • Note 10g Fair Value basis of valuation - to disclose the sensitivity of level 3 investments.

Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section sets out the audit fee and our independence considerations. There are no changes to the audit fee or independence considerations as previously reported to you in the Audit Plan.

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

Fees

	Per Audit Plan £	Actual fees £
Pension Scheme scale fee	24,620	24,620
Agreed fee variation – IAS 19	2,040	2,040
Total audit fees (excluding VAT)	26,660	26,660

The proposed fees for the year were in line with the scale fee set by Public Sector Appointments Ltd (PSAA) for the main audit.

The agreed fee variation for IAS 19 above takes account of the work we are required to undertake for admitted bodies within the PSAA regime and is consistent with that requested in prior years. The fee variation has been approved by PSAA.

Independence and ethics

We confirm that there were no fees for the provision of non audit services .

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises our communication requirements to you as 'those charged with governance'. We confirm that all required reporting is included within the Audit Plan or this Audit Findings Report.

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

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

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Scheme's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Scheme's key risks when reaching our conclusions under the Code.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

A. Draft proposed audit opinion on the financial statements

B. Draft proposed audit opinion on the annual report

Appendix B: Draft proposed audit opinion on the financial statements

We anticipate we will provide the Scheme with an unmodified audit report on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CUMBRIA COUNTY COUNCIL

We have audited the pension scheme financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension scheme financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes. 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 2016/17.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Assistant Director - Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director - Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension scheme 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension scheme financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension scheme financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension scheme's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director - Finance; and the overall presentation of the pension scheme financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension scheme financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension scheme financial statements

In our opinion:

- the pension scheme financial statements present a true and fair view of the financial transactions of the pension scheme during the year ended 31 March 2017 and of the amount and disposition at that date of the scheme's assets and liabilities, and
- the pension scheme financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension scheme financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension scheme financial statements.

Gareth Kelly

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

110 Queen Street
Glasgow
G1 3 BX

To be dated 2017

Appendix C: Draft proposed audit opinion on the annual report

We anticipate we will provide the scheme 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 included in the pension scheme annual report

Opinion

The pension scheme financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2017 which comprise the pension fund account, the net assets statement and the related notes of Cumbria Local Government Pension Scheme are derived from the audited pension scheme financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying 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 2016/17 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.

Who we are reporting to

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 work has been undertaken so that we might state to the members of the Authority 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.

The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension scheme financial statements in the Statement of Accounts in our report dated xxxxxx 2017.

Assistant Director – Finance responsibilities for the pension scheme financial statements in the pension scheme annual report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority is responsible for the preparation of the pension scheme 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 scheme financial statements in both the Statement of Accounts and the pension scheme annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

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.

Gareth Kelly

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

110 Queen Street
Glasgow
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To be dated 2017



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