



# The Audit Findings for Cumbria Local Government Pension Scheme

Year ended 31 March 2020

November 2020



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

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cumbria Local Government Pension Scheme ('the Pension Scheme') and the preparation of the Pension Scheme's financial statements for the year ended 31 March 2020 for those charged with governance. There are no recommendations arising from the audit.

<p><b>Covid-19</b></p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had an impact on the operations of the Pension Scheme. Scheme staff have had to switch to remote working and remote access to all key systems. In preparing its draft accounts, the Scheme has had to place greater reliance on estimates. There has been no material impact on the payment of benefits or receipt of contributions. Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum in July 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 5.</p> <p>Social distancing guidelines has meant both Scheme and audit teams have had to initiate remote working arrangements, including the remote accessing of financial systems, the provision of working papers electronically by secure means, the use of video and telephone conferencing arrangements and using virtual technology to observe the download of data and other information to ensure its completeness and accuracy for testing.</p>
<p><b>Financial Statements</b></p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Scheme's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the Pension Scheme and its income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul>	<p>Our audit fieldwork was completed remotely during July and August 2020. Our findings are summarised in this report. There is an unadjusted misstatement of £1.468 million relating to the valuation of some of the Scheme's level 3 investments, where information received subsequent to the preparation of the draft accounts has identified a difference between the actual 31 March 2020 valuations and the estimate used in the accounts. Audit adjustments are detailed in Appendix B. We have not raised any recommendations for management as a result of our audit work. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p> <p>Our work is well progressed and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> <li>• receipt of management representation letter;</li> <li>• testing of cash, level 2 and level 3 investments and final review of control reports;</li> <li>• post balance sheet events review;</li> <li>• engagement lead and engagement manager review; and</li> <li>• review of the final set of financial statements and annual report.</li> </ul> <p>Our anticipated audit report opinion will be unmodified but will include an emphasis of matter paragraph, highlighting direct and indirect property valuation material uncertainties as outlined in the accounts. As disclosed in Note 22 the Scheme's direct property valuer has declared a 'material uncertainty' in relation to the valuation (£155.700 million) of the Scheme's direct property at 31 March 2020. There is also a material uncertainty in relation to the valuation of the Scheme's indirect property holdings (£78.928 million). This does not affect our opinion that the statements give a true and fair view of the Scheme's financial position and its income and expenditure for the year. A paragraph has been added to indicate this matter, which is adequately disclosed in the Scheme's financial statements and we consider is fundamental to a readers' understanding of the financial statements.</p>

# Audit approach

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit and Assurance Committee. As your auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

### Audit approach

Our audit approach was based on a thorough understanding of the 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; 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 had to alter our audit plan, as communicated to you in July 2020, to reflect our response to the Covid-19 pandemic.

### Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan addendum.

	Pension Scheme £000	Qualitative factors considered
Materiality for the financial statements	25,740	1% of Net Asset of Scheme at 31 March 2020
Performance materiality	21,230	75% of headline materiality
Trivial matters	1,287	5% of headline materiality

## Factors considered in setting materiality

We determined materiality for the audit to be £25.470 million (1% of net assets). This benchmark is considered the most appropriate based on the nature of the Pension Scheme.

Performance materiality drives the extent of our testing and this was set at approximately 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors:

- there has not historically been a large number or significant misstatements arising;
- Senior management and key reporting personnel has remained stable from the prior year audit; and
- the Scheme has a strong internal control environment.

Triviality is the threshold at which we will communicate misstatements to the Audit and Assurance Committee.

## Conclusion

Our audit is well progressed and subject to completion of our remaining fieldwork we anticipate issuing an unqualified audit opinion following the Audit and Assurance Committee meeting on 23 November 2020. These outstanding items include:

- receipt of management representation letter;
- testing of cash, level 2 and level 3 investments and final review of control reports;
- post balance sheet events review;
- engagement lead and engagement manager review; and
- review of the final set of financial statements and annual report.

There are no recommendations arising from the audit.

## Acknowledgements

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

# Significant audit risks

## Risks identified in our Audit Plan

### Covid-19

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

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation.
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates.
- For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.
- Whilst the nature of the Scheme and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate, management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen.
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

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

## Auditor commentary

In response to this risk we;

- worked with management to understand the implications and response to the Covid-19 pandemic, and the impact it had on the pension scheme's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. Materiality was updated to reflect the fall in value of the scheme in the final quarter of the 2019/20 year;
- evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;
- evaluated whether sufficient audit evidence could be obtained through remote technology;
- evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations;
- evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and
- engaged the use of an auditor's valuation expert to support our work on direct property valuations.

Our audit work to date has not identified any issues in respect of this significant risk.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### The valuation of Direct Property

The Scheme revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved, at £161.3 million as at 31 March 2019, and the sensitivity of this estimate to changes in key assumptions.

Management has engaged the services of a valuer to estimate the fair value as at 31 March 2020.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.

In response to this risk we;

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work
- independently requested year-end confirmations from the direct property manager and evaluated the competence, capabilities and objectivity of their valuation expert
- wrote to the valuation expert to confirm the basis on which the valuations were carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Scheme's valuer's report and the assumptions that underpin the valuation
- reviewed the investment manager service auditor reports on design effectiveness of internal controls; and
- engaged the use of an auditor's valuation expert to support our work on direct property valuations.

As disclosed in Note 22 the Scheme's direct property valuer has declared a 'material uncertainty' in relation to the valuation of the Scheme's direct property at 31 March 2020. This is because of the impact Covid-19 has had on the markets upon which the valuation is based. Our audit report will include an emphasis of matter in relation to the disclosure in Scheme's accounts, which reflects this material uncertainty.

Our audit work has not identified any other issues in respect of this significant risk.

### Valuation of Level 3 Investments

The Scheme revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements as at 31 March 2020.

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year-end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

In response to this risk we:

- 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
- independently requested year-end confirmations from investment managers
- evaluated the competence, capabilities and objectivity of the level 3 investment managers as valuation experts; and
- reviewed investment manager service auditor report on design effectiveness of internal controls.

As detailed in Appendix B, the valuation in the financial statements for 7 investment managers was overstated by £1.468 million, as the actual 31 March 2020 valuations had not been used. For the impacted investment managers, an estimate had been used for the 31 March 2020 position, using known cash movements, as the actual 31 March 2020 valuation was not available prior to submission of the draft accounts for audit. It is usual practice for certain types of investment to have longer lead times in the reporting to the scheme and custodian.

The draft accounts have been updated to reflect that there is 'material uncertainty' attached to the valuation of the Scheme's indirect property holdings at 31 March 2020, as well as the direct property holdings referred to above.

Our audit work has not identified any other issues in respect of this significant risk.

# Significant audit risks

## Risks identified in our Audit Plan

## Auditor commentary

### Management over-ride of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

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.

In response to this risk we;

- evaluated the design effectiveness of management's controls over journals;
- analysed the journals listing and determined a 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 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.

As detailed in Appendix B, our prior year audit work identified a control deficiency in relation to the Scheme's journal upload tool. 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. This control deficiency was addressed by management in July 2019. We have carried out additional audit procedures to gain assurance that there have been no unusual journals posted prior to the resolution of this issue.

Our audit work has not identified any other issues in respect of this significant risk.

### The revenue cycle includes fraudulent transactions (rebutted)

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.

## Auditor commentary

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:

- 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 Local Government Pension Scheme, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Cumbria Local Government Pension Scheme.

# Other risks

## Risks identified in our Audit Plan

### Actuarial Present Value of Promised Retirement Benefits

The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.

The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£2.745 billion) and the sensitivity of the estimate to changes in key assumptions.

We understand that the latest triennial valuation, as at 31 March 2019, will not specifically provide for the impact of the McCloud ruling.

We therefore identified the valuation of the Scheme's Actuarial Present Value of Promised Retirement Benefits as an other risk.

## Auditor commentary

In response to this risk we;

- updated our understanding of the processes and controls put in place by management to ensure that the Scheme's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluated the design of the associated controls
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work
- assessed the competence, capabilities and objectivity of the actuary who carried out the Scheme's pension fund valuation
- assessed the accuracy and completeness of the information provided by the Scheme to the actuary to estimate the liability
- tested the consistency of disclosures with the actuarial report from the actuary; and
- undertook procedures to confirm the reasonableness of the actuarial assumptions made, including those about the McCloud ruling, by reviewing the report of the consulting actuary (as an auditor's expert) and performing the additional procedures suggested within the report.

Our audit work has not identified any issues in respect of this significant risk.



# 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.

### Work performed

We have undertaken the following work in relation to going concern;

- discussed the financial standing of the scheme with management
- reviewed the latest triennial valuation management's assessment of going concern assumptions and supporting information, e.g. 2020/21 cash flow



## 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 3 April 2020 in the response to our inquiries of management and those charged with governance.
  - The Scheme has sufficient assets to meet liabilities as they fall due. The last triennial valuation, as at 31 March 2019 reports a funding level of 99%.
  - Note 23 of the financial statements shows that, despite the fall in value of the scheme caused by the Covid-19 pandemic, the scheme still has an estimated funding level of 91%.
- 
- No material uncertainty in relation to going concern has been identified.
  - The Scheme has sufficient assets to meet liabilities as they fall due.
  - The Pension Scheme continues to operate as usual with contributions and investment income being received and benefits being paid.
  - The Scheme has £218.7 million Level 1 investment assets. These assets are liquid and can be accessed quickly for cashflow purposes if required.
  - The Local Government Pension Scheme is a statutory scheme and there are no events or conditions that would indicate the winding up of the Scheme.
- 
- Our opinion is unmodified in respect of going concern.





## Concluding comments

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


# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Level 3 investments (excluding direct property)</b>	<p>The Pension Scheme has investments in unquoted equity investments, limited partnerships and indirect property. These investments in total are valued on the Net Assets Statement as at 31 March 2020 at £753.183 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 assumptions.</p> <p>Valuations are mostly based on future cash flow so will depend on the expectations of the specific income streams and inflation linkage.</p> <p>Valuations for Private Equity investments are usually received a quarter in arrears, but in recognition of the potential significance of market impact from the global pandemic, the Fund has taken steps to ensure these investment are valued at an estimate to the fair value at 31st March, as best available information at the time of preparation.</p> <p>Infrastructure investments have been impacted overall to a lesser degree by the global pandemic, as these include operational assets in renewable and contracted energy, power distribution and utilities.</p>	<p>Our detailed audit work and findings in respect of Level 3 Investments are described on page 6. Where estimates have been used, we have been able to obtain valuations from fund manager to allow us to consider the reasonableness of the estimates made. The draft accounts have been updated to reflect that there is 'material uncertainty' attached to the valuation of the Scheme's indirect property holdings at 31 March 2020. Our audit report will include an emphasis of matter in relation to the disclosure in the Scheme's accounts, which reflects this material uncertainty.</p>	
<b>Level 2 investment</b>	<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 2020 at £1.441 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.</p>	<p>Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. 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>	

## Assessment

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

# Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
<b>Valuation of Direct Property</b>	<p>The Fund invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31st March 2020 the portfolio valued at £155.700m included 24 properties ranging from £0.750m to £17.500m each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland.</p> <p>The Scheme's direct property holding is valued by a valuation expert at 31 March 2020. The valuer has highlighted that the COVID-19 pandemic had a material impact upon economic activity in March 2020 and in recognition of this, the valuer has included a 'Material Uncertainty' clause in its valuation reports as at 31st March 2020. This has been disclosed as a material uncertainty in Note 22 to the accounts.</p>	<p>Our detailed audit work in respect of Direct Property is described on page 6. As disclosed in Note 22 the Scheme's direct property valuer has declared a 'material uncertainty' in relation to the valuation of the Scheme's direct property at 31 March 2020, because of the impact Covid-19 has had on the markets upon which the valuation is based. Our audit report will include an emphasis of matter in relation to the disclosure in the Scheme's accounts, which reflects this material uncertainty.</p>	

## Assessment

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

## Other matters for communication

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

Issue	Auditor commentary
<b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit 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 procedures.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
<b>Written representations</b>	A letter of representation will be requested from the Pensions Scheme, including specific representations in respect of the valuation of level 3 investments, the impact of Covid-19 on property valuations and post balance sheet events.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to all investment fund managers. This permission was granted and the requests were sent and returned with positive confirmations.
<b>Disclosures</b>	<p>Our work to date has found no material omissions in the financial statements. Following audit, notes 1 C, 10 C, 10 D, 14 and 22 were updated to meet the disclosure requirements specified by the Code and relevant financial reporting standards. Further details are included in Appendix B.</p> <p>For key management personnel (disclosed in note 16), we have noted that the Scheme has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits. We are satisfied that readers will not be misled by the current disclosures but have discussed this with management as an area that will be kept under review.</p>
<b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management have been provided.
<b>Matters on which we report by exception</b>	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. Our work in this area has not identified any significant issues. We intend to issue our 'consistency' opinion on the Pension Schemes Annual Report by 30 November 2020.

# Independence and ethics

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:

- Richard McGahon was the external audit manager for Cumbria County Council, the Administering Authority, between 1 June 2018 and 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. Given Richard McGahon has no involvement in accounts preparation, and as our team does not place direct reliance on internal audit work, the real and perceived threat to independence, objectivity and integrity is low. However, there remains a perceived threat of independence, and this has been mitigated by putting in place the following safeguard, the appointment of an Engagement Quality Control Reviewer, who is another Engagement Lead who acts as an additional review partner.
- Jamie Wright was the external audit in-charge for Cumbria County Council, the Administering Authority, between December 2016 to September 2019 and the external audit manager between September 2019 to November 2019. In November 2019, Jamie applied for the post of Group Finance Manager at Cumbria County Council and was successfully appointed to the post on 19 November 2019. As the Director of Finance has confirmed that Jamie will have no involvement in the Pension Scheme, the real and perceived threat to independence, objectivity and integrity is low. However, there remains a perceived threat of independence, and this has been mitigated by putting in place the following safeguard, the appointment of an Engagement Quality Control Reviewer, who is another Engagement Lead who acts as an additional review partner. If Jamie's role changes at all to include work on the Pension Scheme, we will re-consider the safeguards put in place in relation to this issue.

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020, which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Scheme. The following audit related service was identified

	Fees £	Threats identified	Safeguards
<b>Audit related</b>			
Provision of IAS 19 Assurances to Scheme Employer auditors	7,000	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 £7,000 in comparison to the total fee for the audit of £30,957 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.

There were no non-audit related services. None of the services provided are subject to contingent fees.

# Follow up of prior year recommendations

We identified the following issue in the audit of Cumbria Local Government Pension Scheme's 2018/19 financial statements, which resulted in a recommendation being reported in our 2018/19 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p><b>Journal upload tool</b></p> <p>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.</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>	<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 which forces a user to enter a log on and password before they can use the spreadsheet upload tool. This solution was operational from week commencing 29th July 2019.</p> <p>In relation to the mitigating controls before this date, management placed reliance on the following existing controls:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Officer and Member scrutiny of formal mid year and outturn performance and budget reports. Any variances against budget are explained.</li> <li>• Officer and Member scrutiny of annual accounts.</li> <li>• Detailed analytical review of financial information (mid year and outturn performance and budget reports and annual accounts).</li> </ul>

## 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 unadjusted misstatements

Our audit work to date has not identified any unadjusted misstatements.

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within 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
1 The valuation in the financial statements for 7 investment managers was overstated by £1.468 million, as the actual 31 March 2020 valuations had not been used. Net Investment Assets in the draft accounts were valued at £2.563 billion, our audit work identified that the valuation should have been £2.562 billion. For the impacted investment managers, an estimate had been used for the 31 March 2020 position, using known cash movements, as the actual 31 March 2020 valuation was not available prior to submission of the draft accounts for audit. It is usual practice for certain types of investment to have longer lead times in the reporting to the scheme and custodian.				The estimated values of the assets are not materially different from those reported in the accounts, they represent an overstatement of assets of less than 0.1% (of £2.562 billion) 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.
Profit/ (losses) on disposal of investments and changes in the market value of investments	1,468			
Investment assets		(1,468)	(1,468)	
<b>Overall impact</b>	<b>£1,468</b>	<b>(1,468)</b>	<b>(1,468)</b>	

# Audit adjustments

## Impact of adjusted misstatements

Our audit work to date has not identified any adjusted misstatements.

## Impact of prior year unadjusted misstatements

There are no prior year unadjusted misstatements.

## Misclassification and disclosure changes

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

Disclosure changes	Detail	Adjusted?
Note 1 C Fund Performance	Further narrative has been added to this note to provide more context around the Scheme's exit from its equity protection product in February 2020.	✓
Note 10 C Derivatives	The draft note did not include prior year comparators. The note has been updated following audit to include prior year comparators.	✓
Note 10 D Profit and Losses on Disposal of Investments and changes in the market value of investments	The note has been simplified to disclose the changes in value of investments as a net figure, rather than separately disclosing realised and unrealised gains. The note in the final accounts is consistent with the requirements of the CIPFA Code.	✓
Note 14 Financial Instruments	The draft note did not include an interest rate sensitivity analysis. This has been added following audit.	✓
Note 22 Critical Judgements in Applying Accounting Policies and the use of Estimates and Uncertainties	<p>The draft note referenced estimation uncertainty in areas of the accounts where there was not a risk of material misstatement. Following audit challenge, estimates relating to long term debt, allowance for credit losses and bad debt provision have been removed from this note on the grounds of materiality.</p> <p>The draft accounts did not clearly set out the assumptions that give rise to uncertainty and include sensitivity analysis or disclosure of the range of reasonably possible outcomes. The note has been updated following audit to reference key assumption and sensitivity analysis in relation to Direct Property, Level 3 Investments and the Pension Liability.</p> <p>The draft accounts have been updated to reflect that there is 'material uncertainty' attached to the valuation of the Scheme's indirect property holdings at 31 March 2020.</p>	✓



# Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Pension Scheme	£22,707	£30,957 (provisional TBC)
<b>Total audit fees (excluding VAT)</b>	<b>£22,707</b>	<b>£30,957</b>

- We have charged an additional £3,750 in respect of work associated with our additional Covid-19 financial statement level significant risk.
- We have charged an additional £4,500 in respect of the work of our auditors expert property valuer. The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of Directly held property investments needs to improve across the sector. We have appointed our own valuation expert to support and corroborate our assurance work in this area.

The fee reconcile to the financial statements as follows

<b>Fees per financial statements</b>	<b>£32,207</b>	Rounded to £32,000 in Note 8 of the financial statements
Additional Fee 2018/19	-£9,500	Not accrued for in 2018/19 accounts
Additional Fee 2019/20	£8,250	As outlined above
<b>Total Final Fee above</b>	<b>30,957</b>	

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services Provision of IAS 19 Assurances to Scheme Employer auditors	£7,000	£7,000
Non- Audit Related Services	£0	£0
<b>Total non- audit fees (excluding VAT)</b>	<b>£7,000</b>	<b>£7,000</b>

# Audit opinion- Financial Statements

We anticipate we will provide the Pension Scheme 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 2020 which comprise the Pension Fund Account for the year ended 31st March 2020, the Net Assets Statement as at 31 March 2020 and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension scheme during the year ended 31 March 2020 and of the amount and disposition at that date of the scheme's assets and liabilities,
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension scheme'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.

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

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

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a scheme associated with these particular events.

## Conclusions relating to going concern

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

- the Director of Finance's use of the going concern basis of accounting in the preparation of the pension scheme's financial statements is not appropriate; or
- the Director of Finance 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.

# Audit opinion

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

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

## Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 22 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension scheme's property investments as at 31 March 2020. As disclosed in Note 22 to the financial statements, the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Market activity is being impacted in many sectors, including property.

In response to this, the Fund's property valuer (CBRE Ltd) has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports. This material uncertainty clause is applicable to the Fund's direct and indirect property holdings. Our opinion is not modified in respect of this matter.

## Other information

The Director of Finance 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.

## Opinion on other matter 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 Statement of Accounts, 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 financial statements are prepared is consistent with the pension scheme's 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.

# Audit opinion

## Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 24, 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. The Director of Finance 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 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance 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 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 scheme 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 scheme'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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Use of our report

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

[Signature]

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

[Date]

# Audit opinion- Annual Report

We anticipate we will provide the Pension 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 of Cumbria Local Government Pension Scheme included in the Pension Scheme Annual Report

### Opinion

The pension scheme financial statements of Cumbria Local Government Scheme (the 'pension scheme') administered by Cumbria County Council (the "Authority") for the year ended 31 March 2020 which comprise the Pension Fund Account for the year ended 31st March 2020, the Net Assets Statement as at 31 March 2020 and notes to the financial statements, including a summary of significant accounting policies are derived from the audited pension scheme financial statements for the year ended 31 March 2020 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 2019/20 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 scheme financial statements in the Statement of Accounts in our report dated xx November 2020.

That report also includes an Emphasis of Matter - effects of Covid-19 on the valuation of property investments section that draws attention to Note 22 in the audited pension scheme financial statements, which is replicated in Note 22 of the pension scheme financial statements. Note 22 describes the effects of the Covid-19 pandemic on the valuation of the pension scheme's property investments as at 31 March 2020. As disclosed in Note 22 to the financial statements, the outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Market activity is being impacted in many sectors, including property. In response to this, the Fund's property valuer (CBRE Ltd) has been directed by the Royal Institution of Chartered Surveyors (the RICS) to include a 'Material Uncertainty' clause in all property valuation reports. This material uncertainty clause is applicable to the Fund's direct and indirect property holdings. As stated in our report dated xx November 2020, our opinion is not modified in respect of this matter.

### Director of Finance's 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 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 2019/20.

### 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.

[Signature]

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

Date



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