

AUDIT AND ASSURANCE COMMITTEE

Meeting date: 23rd November 2020

From: Director of Finance (S151 Officer)

ACCOUNTS OVERVIEW - 2019/20

1.0 EXECUTIVE SUMMARY

- 1.1 *The Unaudited Accounts for the Council and the separate Cumbria Local Government Pension Scheme (Cumbria LGPS) 2019/20 were published on 31st July 2020 in line with the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.***
- 1.2 *Grant Thornton have now substantially completed their audit work for the Cumbria LGPS and will present their Audit Findings Report to this meeting (Agenda Item 10 page 329).***
- 1.3 *The audit for the Council is still ongoing and the Audit Findings Report together with the audited Statement of Accounts will be presented to the meeting on 27th November.***

Key Messages

- 1.4 *The key messages of the Audit Findings Report (AFR) for Cumbria LGPS are:***
 - 1.4.1 *that Grant Thornton intend to issue an unqualified audit opinion on the 2019/20 Accounts.***
 - 1.4.2 *that again a very high quality of financial reporting has been achieved, with working papers being to a good standard. Grant Thornton positively commented on the effective response time to their audit queries.***
 - 1.4.3 *There are no recommendations and the AFR confirms that the accounts contained no material errors to the primary statements. It does, however, identify a net overstatement of approximately £1.5 million in respect of the valuation of seven level 3 investments. This represents less than 0.1% of the assets published in the draft accounts and, in light of immateriality and the general short-term***

volatility of investment assets, the Fund considers it not necessary to adjust for these differences. This is consistent with the approach taken in previous years.

- 1.4.4 The Cumbria LGPS AFR notes that a “material uncertainty” clause has been added in relation to the valuation of Fund’s direct and indirect (including pooled property funds) property valuation. This is the approach that is being directed nationally by the professional body responsible for promoting and enforcing the standards for property valuations for 2019/20. The clause does not mean that the valuation cannot be relied upon, instead it is included in order to be clear and transparent that, in the volatile markets arising due to COVID-19, less certainty can be attached to the valuation than would otherwise be the case.**
- 1.4.5 In addition to this a few minor amendments were made to disclosure notes to further improve clarity and consistency. None of these issues had an impact on the primary financial statements of the Cumbria LGPS.**
- 1.5 The Audit and Assurance Committee is required to approve the audited set of accounts for the Council (Agenda Item 7c) and Port of Workington (Agenda Item 7e) in accordance with the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, and the Council’s Constitution.**
- 1.6 At the meeting on 23rd November the Committee has received the following:**

Agenda Item	Paper Title	Comment
6	Annual Governance Statement	Considered earlier on the agenda
7b	Letter of Representation Cumbria LGPS (page 53 to 56)	Not expected to change
7c	Cumbria LGPS 2019/20 Accounts (page 239 to 315)	Not expected to change
7c	Cumbria County Council Draft audited 2019/20 Accounts as at 13th November 2020 (page 57 to 238)	The audit is ongoing and there may be changes
7e	Port of Workington Harbour Accounts 2019/20 (page 317 to 327)	Not expected to change
10	Grant Thornton Audit Findings Report – Cumbria LGPS (Page 339)	Not expected to change

1.7 On 23rd November Members will be asked to:

- **Approve that the Letter of Representation for the Cumbria LGPS can be signed, on behalf of the Council, by the Director of Finance (s151 officer) and the Chief Executive on the date of the audit opinion, subject to there being no significant changes in the disclosures in the letter between the date of this meeting (23rd November 2020) and the date of the opinion.**
- **Confirm that they are satisfied that the Cumbria LGPS 2019/20 Accounts, as presented with a minor amendment to include additional wording in note 22 as detailed at 4.7.1 and in Appendix 1 to this report, can be approved as part of the Council's audited accounts at the meeting on 27th November 2020.**
- **Confirm that they have received and considered the findings in the external auditor's Audit Findings Report for the Cumbria LGPS.**
- **Approve the Port of Workington Harbour 2019/20 Accounts.**
- **Review the Cumbria County Council draft 2019/20 audited accounts as at 13th November 2020.**

1.8 At the meeting on 27th November the Committee will receive the following:

Agenda Item	Paper Title
5	Annual Governance Statement
6a	Letter of Representation – Cumbria County Council
6b	Cumbria County Council Audited 2019/20 Accounts
7a	Grant Thornton Audit Findings Report for Cumbria County Council including Value for Money conclusion

1.9 On 27th November Members will be asked to:

- **Approve that the Letter of Representation for Cumbria County Council can be signed, on behalf of the Council, by the Director of Finance (s151 officer) and the Chief Executive on the date of the audit opinion, subject to there being no significant changes in the disclosures in the letter between the date of this meeting (27th November 2020) and the date of the audit opinion.**
- **Confirm that they have received and considered the findings in the external auditor's Audit Findings Report for Cumbria County Council.**

- *Approve the audited accounts of Cumbria County Council for 2019/20, including the Cumbria LGPS.*
- *Approve the Annual Governance Statement.*

2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS

2.1 *The delivery of action plans in response to the findings of audit reviews is essential to ensure the improvement in internal control systems and to ensure that the Council's resources are properly applied, risks are appropriately managed and Council Plan outcomes are achieved.*

3.0 RECOMMENDATIONS

3.1 *Members are asked to:*

- a) *Note the contents of this report.*
- b) *Consider the matters set out by Grant Thornton in the Audit Findings Report – Cumbria Local Government Pension Scheme Audit 2019/20 (Agenda Item 10). In particular, to note:*
 - I. *The headlines (Page 331)*
 - II. *Significant Findings (Page 337 to 339)*
- c) *Approve management's decision not to adjust for the item raised in the unadjusted misstatement section of the Cumbria Local Government Pension Scheme Audit Findings Report (page 343).*
- d) *Agree the Letter of Representation on behalf of the Council in respect of the Cumbria Local Government Pension Scheme to enable Grant Thornton to issue audit opinion on the accounts and authorise the Director of Finance, as the Council's Section 151 (Local Government Act 1972) Officer to sign the letters. (Agenda item 7b page 53 to 56).*
- e) *Consider the Cumbria County Council Accounts 2019/20 as at 13th November in readiness for the meeting on 27th November. (Agenda Item 7c page 57 to 238).*
- f) *Approve the Cumbria Local Government Pension Scheme Accounts, including the additional wording to be included in note 22 as detailed at appendix 1 to this report, on behalf of the Council. (Agenda item 7c page 239 to 315).*
- g) *Approve the Port of Workington Harbour Accounts 2019/20 on behalf of the Council. (Agenda item 7e page 317 to 327).*
- h) *Authorise the Director of Finance, as the Council's Section 151 (Local Government Act 1972) Officer to sign the Cumbria Local*

***Government Pension Scheme and Port of Workington Harbour
Accounts on behalf of the Council. (Agenda Items 7c and 7e).***

4.0 BACKGROUND

- 4.1** The Unaudited Accounts for the County Council and the Cumbria Local Government Pension Scheme (Cumbria LGPS) were published on 31st July 2020 in line with the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020. The Chair of the Committee has been briefed throughout the accounts closure process.
- 4.2** Grant Thornton has now substantially completed their audit work on the Cumbria LGPS. At this meeting they will present the Audit Findings Report for the Cumbria Local Government Pension Scheme 2019/20 accounts. This covering report summarises Grant Thornton's findings. It does not add commentary or further explanation to their report, summarising key messages and provides some context.
- 4.3** The audit for the Council's 2019/20 Accounts is still to be concluded, the Audit Findings Report for the Council will be presented at the 27th November meeting.
- 4.4** The Audit and Assurance Committee received a private briefing and training session on the Accounts of the Council, Cumbria LGPS and Port of Workington on 18th November 2020.

Statement of Accounts – Cumbria Local Government Pension Scheme

- 4.5** The Council's Accounts contain the Statement of Accounts of the Cumbria Local Government Pension Scheme (Cumbria LGPS). The separate Audit Findings Report (AFR) (Agenda Item 10) summarises the findings from Grant Thornton's review of the draft Cumbria LGPS Accounts for 2019/20.
- 4.6** The AFR for the Cumbria LGPS contains no recommendations for future improvements. The AFR also finds that the Accounts for 2019/20 contained no material errors affecting the primary statements and that 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. It does, however, identify an understatement of approximately £1.5 million in respect of the valuation of seven investment manager portfolios that impact upon level 3 investments. This represents 0.1% of the assets published in the draft accounts and, in light of the immaterial nature of the differences and 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.
- 4.7** The Cumbria LGPS AFR notes that 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 is the approach that is being directed nationally by the professional

body responsible for promoting and enforcing the standards for property valuations for 2019/20. This material uncertainty clause is applicable to the Fund's direct and indirect property (including pooled property funds) holdings. The inclusion of the 'material uncertainty' clause does not mean that the valuation cannot be relied upon. It is included in order to be clear and transparent that, in the current extraordinary circumstances, less certainty can be attached to the valuation than would otherwise be the case.

- 4.7.1** To aid the reader's understanding of this matter, a minor amendment has been made to note 22 (p.307 of the pack) since the publication of the accounts at Agenda item 7c. The amendment is the addition of "(including pooled property funds)" and reflects that the uncertainty clause relates to all of the Fund's property holdings, including pooled property funds. The amended page in the accounts (p.307 of the pack) is included at appendix 1 to this report.
- 4.8** In addition to this a few minor amendments were made to disclosure notes to further improve clarity and consistency. None of these issues had an impact on the primary financial statements of the Cumbria LGPS.
- 4.9** A comprehensive report on the performance of the Cumbria Local Government Pension Scheme in 2019/20 will be provided in the Annual Report which is to be published by December 2020 and will be available on the Council's website before this. Key headlines from the Cumbria LGPS accounts are as follows:-
- Net assets decreased over year by £129m to £2.574bn.
 - The Fund is primarily focussed on longer-term performance and, whilst the Fund underperformed against its 3 year benchmark (2.6% p.a. against a benchmark of 3.2%) outperformed both its 5 and 10 year benchmark (5 year: 5.6% p.a. against a benchmark of 5.2%) and 10 year: 7.7% p.a. against a benchmark of 7.1%).
 - The 2019 triennial actuarial valuation of the Fund was completed on 31st March 2020 in line with the statutory deadline.

Letter of Representation

- 4.10** Before issuing the opinion upon the Council's Accounts, in accordance with auditing standards, the Auditor is required to ask the Council for its written representations about the Council's financial statements and governance arrangements. The Audit and Assurance Committee is asked to confirm on behalf of the Council that the letter has been discussed and agreed, and authorise the Director of Finance (s151 Officer) to sign the letter on behalf of the Council. To fulfil the International Auditing Standards two signatures will be required on the Letters of Representation, these will be the Director of Finance (s151 Officer) and Chief Executive. The draft letter of Representation in respect of the Cumbria LGPS 2019/20 Accounts is attached as Agenda items 7b (page 53). If any amendments are required then these will be presented on the day.

Statement of Accounts – Port of Workington Harbour Accounts 2019/20

- 4.11** Members will remember that the Harbours Act 1964 requires an annual statement of accounts but it doesn't specify a format; that is covered by the Companies Act 2006. The Companies Act accounting requirements depend on whether a body can be classified as small or not. Harbour authorities below the Companies Act turnover threshold of £6.5m are free to determine their own reasonable basis of financial reporting to comply with the requirement of the Harbours Act 1964 to prepare an annual statement of accounts relating to harbour activities.
- 4.12** The Port of Workington is below the £6.5m turnover Companies Act threshold. The Council has prepared a statement of accounts for the Port of Workington that includes the following:
- Profit and Loss Account,
 - Balance Sheet
 - Accounting Policies
 - Notes to the Balance Sheet
 - Statement of Responsibilities
- 4.13** Grant Thornton have performed a limited audit to provide the Council with assurance that the Accounts have been prepared on a reasonable basis and will also report, on an exception basis, any matters relating to the annual statement of accounts that they consider need to be drawn to the Council's attention.
- 4.14** This report presents the audited Port of Workington Harbour Accounts 2019/20 (Agenda item 7d).
- 4.15** Finally, in order to meet the requirements of the Harbour Act 1964 a copy of the Port of Workington Harbour Accounts together with the Auditor's report will be sent to the Department for Transport (DfT) each year. Subject to Members' consideration today returns will be despatched to DfT.

2019/20 Statement of Accounts

- 4.16** The Port of Workington financial performance is included as part of the Economy & Infrastructure monthly budget monitoring to Directorate Management Team and the quarterly budget monitoring report to Cabinet. A more detailed financial report is presented to the Workington Harbour Board on a quarterly basis.
- 4.17** For 2019/20 the Port of Workington had a net income budget of (£0.160m), this was revised during the year to (£0.101m). The outturn for the year was a surplus of (£0.023m) giving an overspend of (£0.078m) against the (£0.101m) net income budget.
- 4.18** For statutory accounting purposes a number of technical accounting adjustments are added to the actual outturn, such as depreciation and loss on disposal of plant and equipment. For 2019/20 these technical adjustments totalled £0.989m. When these are deducted from the trading surplus of £0.023m it gives an accounting loss for the year of £0.966m.

- 4.19** The Balance Sheet reports Total Assets of £20.778m consisting wholly of Property, Plant and Equipment.
- 4.20** In respect of the Audit of the Harbour Accounts there are no issues to draw to Members attention.

Julie Crellin
Director of Finance (s151 Officer)
20th November 2020

APPENDICES

APPENDIX 1 – Extract from Cumbria Local Government Pension Scheme Accounts 2019/20 showing the amendment to the wording of note 22 to the Cumbria LGPS accounts

Note: Agenda items 7a, 7b, 7c, and 7d are published separately on the agenda

BACKGROUND PAPERS

None

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APPENDIX 1 – EXTRACT FROM CUMBRIA LOCAL GOVERNMENT PENSION SCHEME ACCOUNTS 2019/20 (p.307 of the pack and p.250 in the accounts)

AMENDMENT TO THE WORDING OF NOTE 22 the amendment is shown in italics and highlighted in grey for ease of identification

CUMBRIA LOCAL GOVERNMENT PENSION SCHEME ANNUAL REPORT & ACCOUNTS 2019/20

8. THE PENSION FUND ACCOUNTS

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 is the approach that is being directed nationally by the professional body responsible for promoting and enforcing the standards for property valuations for 2019/20; and this material uncertainty clause is applicable to the Fund's direct and indirect property *(including pooled property funds)* holdings.

The following explanatory narrative has been summarised from the CBRE Cumbria LGPS Valuation Report 31 March 2020:

As at the valuation date, we [CBRE] consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of 'material valuation uncertainty' ... Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. ...

The RICS have directed that the above 'Material Uncertainty' clause be included with all property valuation reports. These are only adopted when market circumstances at the date of the valuation have changed from the period when the comparable transactions on which the valuation is based were concluded. At present we have a situation where some transactions, agreed earlier in the month, are continuing, suggesting that the evidence they offer remains valid. Conversely, there are many transactions that have been either suspended, delayed or abandoned. There is very little indication of any new property being offered for sale in the latter part of March from which the market reaction and pricing can be gauged, hence the adoption of the 'Clause'.

The downward trajectory of the stock market, the closure of most retail outlets and the general effect on the economy are leading some commentators to predict a global recession. Short term effect or a deeper malaise is unknown. What we can say however, is that with investors increasingly cautious, property cannot remain unaffected. Although there is no evidence of a fall in values there is sufficient circumstantial evidence for us to consider that the yield, and perhaps rental levels reached earlier [in March 2020] will not be replicated for some time. After consulting widely amongst our clients and competitors, a consensus view was reached that property valuations will need adjusting compared to the evidence as it stood earlier in the month. In the individual valuations ... we have deducted one quarter's rent in respect of all retail and leisure properties, extended current and future void periods and adjusted most equivalent or initial yields.

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