AUDIT 2015/16 - OVERVIEW

1.0 EXECUTIVE SUMMARY

1.1 The Unaudited Accounts for the Council and the separate Cumbria Local Government Pension Scheme (Cumbria LGPS) 2015/16 were published on 30th June, having been authorised by the Assistant Director – Finance (S151 Officer) in line with the Accounts and Audit Regulations 2011, after consultation with the Chair and Vice-Chair of the Committee.

1.2 Grant Thornton have now completed their audit work and will present their Audit Findings Reports to this meeting (Agenda Items 7 and 8). This report presents the Council’s response to the Audit Findings Report and includes the following for both sets of accounts:

| Letters of Representation providing assurance to Grant Thornton | Agenda item 6.1 – Cumbria County Council  
Agenda item 6.2 – Cumbria LGPS |
| The Statements of Accounts (as amended for the audit findings) | Agenda item 6.3 — Note: Cumbria LGPS from page 183 to 251 |

Key Messages

1.3 The key messages of the Audit Findings Reports are that Grant Thornton intend to issue an unqualified audit opinion on both the County Council and the Cumbria LGPS sets of 2015/16 Accounts.

1.4 Grant Thornton also intends to issue an “except for” Value for Money conclusion for Cumbria County Council in respect of securing economy, efficiency and effectiveness in the use of resources. The “except for” conclusion is in relation to the ongoing impact of the
“inadequate” Children’s Services Ofsted inspection published in May 2015. With the exception of the matter reported on children looked after the Auditors are satisfied that in all significant respect the Council put in proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

1.5 The Audit Findings Report for the Council’s accounts comments again on the high quality of the financial reporting, with working papers being to a high standard and they have positively commented on the effective response time to their audit queries. Overall, the very small number and the nature of the adjustments reflect the continuing improvement and substantial progress the Council has made in strengthening the accounts compilation process over recent years.

1.6 The Council’s draft primary statements required no adjustments. There was however a few minor amendments required to the disclosure notes.

1.7 While the aim is to provide a completely “clean” set of accounts, it would be exceptional for any Council not to have some amendments to their unaudited accounts given the scale of the exercise (resulting in a 253 page document) and the complex and technical requirements for completion.

1.8 The Audit Findings Reports highlight the high standards that are being achieved in the quality of the Statement of Accounts. The production of the Statement of Accounts is an annual exercise and is the final piece of the jigsaw in relation to the financial management cycle for the Council. By its nature it is a very technical exercise but at its core it relies on the significant level of work that is carried out during the year across Finance and the wider organisation in managing and monitoring the Council’s financial position. To maintain these high standards when the timetable for closure of accounts is becoming tightened whilst resources are being reduced across the Council and in finance will be challenging.

1.9 The Audit Findings Report for Cumbria LGPS confirms that the accounts contained no material errors to the primary statements. The audit identified one unadjusted misstatement, regarding an understatement in valuation of illiquid, alternative pooled funds by £3.751m (on valuation £111.944m), which was not material to the results of the Fund or its financial position. Again, the AFR for Cumbria Local Government Pension Scheme highlights the high standards that are being achieved in respect of working papers and responses to audit queries.

1.10 The Audit and Assurance Committee is required to approve the audited set of accounts at this meeting in accordance with the Accounts and Audit Regulations 2011, and the Council’s Constitution.

1.11 The Committee is also asked to consider the Letters of Representation (Agenda Item 6.1 and Agenda Item 6.2), which provide Grant Thornton with assurance on the financial statements and governance
arrangements upon which they will base their audit opinion. The Regulations require the letters to be signed by the Assistant Director – Finance, as the s151 Officer, on behalf of the Council.

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 RECOMMENDATION

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 in relation to Cumbria County Council (Agenda Item 7). In particular, to note:

   I. The Key issues arising from the audit (Page 6)
   II. Audit Findings (Page 9)

c) Consider the matters set out by Grant Thornton in the Audit Findings Report – Cumbria Local Government Pension Scheme Audit 2015/16 (Agenda Item 8). In particular, to note:

   I. The Key Audit and Financial Reporting Issues (Page 6)
   II. Audit Findings (Page 7)

d) Approve management's decision not to adjust for the items raised in the unadjusted misstatements section of the CCC Audit Findings Report (page 23) and the CLGPS Audit Findings Report (page 19).

e) Agree the Letters of Representation on behalf of the Council in respect of the two sets of accounts to enable Grant Thornton to issue audit opinions on the accounts and authorise the Assistant Director – Finance, as the Council's Section 151 (Local Government Act 1972) Officer to sign the letters. (Agenda items 6.1 and 6.2).

f) Approve the Cumbria County Council Accounts 2015/16 which incorporates the Cumbria Local Government Pension Scheme Accounts on behalf of the Council. (Agenda item 6.3).

g) Authorise the Assistant Director – Finance, as the Council's Section 151 (Local Government Act 1972) Officer to sign the two sets of accounts on behalf of the Council. (Appendix 2).
h) Agree the completed Action Plans to the Audit Findings Report for the Council (Agenda item 7 page 40) and Cumbria LGPS (Agenda item 8 page 26)

4.0 BACKGROUND

4.1 The Unaudited Accounts for the County Council and the Cumbria Local Government Pension Scheme (Cumbria LGPS) were published on 30th June, having been authorised by the Assistant Director – Finance in line with the Accounts and Audit Regulations 2011. The Chair and Vice-Chair of the Committee have been briefed throughout the accounts closure process and were consulted before the publication in June.

4.2 Grant Thornton has now completed their audit work and at this meeting will present the Audit Findings Reports for 2015/16 in respect of the two sets of accounts. This covering report summarises Grant Thornton’s findings. It does not add commentary or further explanation to their reports, but summarises key messages and provides some context.

4.3 The Audit and Assurance Committee received a private briefing and training session on the Accounts of the Council and Cumbria Local Government Pension Scheme after its meeting on 9th September 2016.

Statement of Accounts – Cumbria County Council

4.4 In summary, the Audit Findings Report (contained at Agenda Item 7 on today’s Agenda) comments that “We are pleased to report the Council has again achieved a high quality standard of financial reporting for 2015/16 in terms of compliance with the CIPFA Code of Practice.”

4.5 The production of the Statement of Accounts is an annual exercise and is the final piece of the jigsaw in relation to the financial management cycle for the Council. By its nature it is a very technical exercise but at its core it relies on the significant level of work that is carried out during the year across Finance and the wider organisation in managing and monitoring the Council's financial position.

4.6 The draft accounts contained no material errors in the primary statements and only a few minor changes were required to disclosure notes.

4.7 The audit identified a misstatement that management have adjusted for in relation to the group balance sheet incorrectly classifying £1m of cash within the short term investments balance. There is no impact on the net reported position for this adjustment.

4.8 The audit identified an issue that management have chosen not to adjust the financial statements for it is therefore reported as an unadjusted misstatement. The misstatement relates to a £2,000 error that due to the audit approach has been extrapolated by the auditors to a theoretical error of £961,000. This error is relative to spend of £103m capital expenditure for the year. Management have decided that no adjustment is required as the extrapolation is theoretical and the original error is trivial.
4.9 The Committee is asked to approve management’s decision not to adjust for the items raised in the unadjusted misstatements section of the Audit Findings Report (page 23) and detailed in paragraph 4.8 above.

4.10 Audit have identified an area for reporting in relation to the internal control framework. In July 2016, during the external audit process, it was identified that a typographical error in a table in the approved Strategy Statement for 2015/16 resulted in a disparity between the financial limits for deposits with approved institutions (money market funds and enhanced money market funds only) in the Strategy and the financial limits included in the documentation used by the finance team. There was no intention to amend the treasury management strategy for 2015/16 to reduce the investment limits from the previous year.

4.11 This control issue was reported to the Council’s Corporate Governance Group (CGG) in August 2016. The CGG thoroughly discussed the report and welcomed the transparency and promptness of the response to the Auditor’s Findings. The CGG did not feel that the issue needed to be reported in the Annual Governance Statement given the findings of the investigation by Capita (Council’s Treasury Management Advisors) that confirmed that no additional risks had occurred during the periods of the breach, as investments were with appropriate credit rated entities. No further reporting action is required and additional high level controls have been introduced.

4.12 The detailed Auditor’s findings on the financial statements are set out on pages 9 to 24 of the Audit Findings Report.

4.13 Grant Thornton’s report includes two recommendations (Agenda item 7 page 40) regarding the Council’s Statement of Accounts and these relate to:

<table>
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<th>Recommendation</th>
<th>CCC Response</th>
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<tr>
<td>Include further non financial performance information in the Narrative Statement to disclose the key measures of performance linked to Council’s strategic objectives.</td>
<td>Non-financial performance information is presented to members and the public through quarterly reporting to Cabinet and Council. A link to the performance reporting has been included in the 2015/16 narrative statement and in future years where possible a summarised position will be introduced into the narrative statement.</td>
<td>Assistant Director – Finance June 2017</td>
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</table>
Introduce additional controls to assess the approved treasury management strategy to investment decisions on a regular basis.

The 2016/17 Investment Strategy reflects the continuing limit of £20m to individual investments, however, in light of the audit findings, to provide further assurances additional high level controls have been introduced.

The matter was reported in full to the Corporate Governance Group at its meeting on 16th August 2016 and the conclusion reached that no further reporting action was required.

Assistant Director – Finance
September 2016


4.15 In respect of Usable Reserves the Council agreed a target of £15m for the General Fund Balance when setting the 2015/16 Budget in February 2015. For 2016/17 Council agreed a target of £13m when setting the 2016/17 budget in February 2016. The General Fund Balance as at 31st March 2016 is £14.300m a decrease of £0.921m from 31st March 2015.

4.16 There is a net decrease in Earmarked Revenue Reserves of £14.622m, which includes a £2.230m decrease in directorate and other reserves. These reserves facilitate the carry forward of budget across financial years for various commitments into 2016/17 to enable the continuation of agreed schemes and activities. The Earmarked reserves balance includes the net underspending on Local Committee budgets.

4.17 There was a £4.155m net decrease in school and DSG reserves that are ring-fenced for future spending on schools and £5.631m utilisation of the Modernisation Reserve to fund voluntary redundancies as part of the Council's overall re-shaping programme. There was a drawdown of £2.606m from the Revenue Reserves for Capital Purposes to contribute to the financing of the capital programme.

4.18 Overall the Council, as at 31st March 2016. Has a positive Balance Sheet position with Total Reserves of £42.343m. Members will remember that the Council had a negative Balance Sheet position as at 31st March 2015, predominantly as a result of the increased Pension Liability from £501m in 2013/14 to £622m in 2014/15, an increase of £121m. For 2015/16 the Pension Liability has decreased by £52m to £570m in 2015/16. The pension liability is volatile and is impacted by changes in the financial assumptions used in the actuarial valuation of the liability as at the Balance Sheet date. The liability is calculated at a point in time (i.e. 31st March) using IAS 19 accounting requirements and is significantly impacted by Corporate bond yields.
4.19 The Total Reserves of £42.343m is made up of £113.668m of usable (cash backed) reserves offset by the negative unusable reserves position (£71.325m) which are not cash backed.

4.20 The Unusable reserves position includes the negative Pensions Reserve which reflects the Pensions Liability position. The Council is in effect having to record all of its pension liability as at 31st March 2016 as if it was all due to be repaid on that day, equivalent to having an individual’s total mortgage liability (repayment and interest) reported as all due on the same day. As with most people’s mortgages the Council has an agreed period (19 years) to reduce the pensions liability as required by Statute. The Council, along with all other employers, are paying additional employer contributions annually to meet the shortfall as required by the CLGPS actuarial valuation of the Fund carried out as at 31st March 2013.

**Statement of Accounts – Cumbria Local Government Pension Scheme**

4.21 The Council’s Accounts contain the Statement of Accounts of the Cumbria Local Government Pension Scheme (Cumbria LGPS). The separate Audit Findings Report (AFR) for the Cumbria LGPS (Agenda Item 8) summarises the findings from Grant Thornton's review of the draft Cumbria LGPS Accounts for 2015/16.

4.22 The Auditor’s Audit Findings Report finds that the Accounts for 2015/16 contained no material errors affecting the primary statements. The audit identified one unadjusted misstatement, regarding an understatement in valuation of illiquid pooled funds by £3.751m (on valuation £111.944m). These are funds of alternative assets such as infrastructure, private equity and private loans, and it is industry practice for valuations to be confirmed up to three months behind that of mainstream investment assets. In the context of earlier closedown deadlines, it was considered prudent not to make a late adjustment, which would not have been material to the results of the Fund or its financial position.

4.23 The Auditor’s report makes two recommendations in the Action Plan (Agenda item 8 page 26) as below.

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<tr>
<td>Review the actual 31 March position for any investment manager portfolios where the 31 March position is estimated to reflect any updated information available prior to the authorised for issue date.</td>
<td>The Fund’s investments in alternative pooled funds are the most illiquid assets, being in assets such as infrastructure (JPM), private equity (Unigestion) and private loans (M&amp;G REDF), and they are not traded so have no observable market prices. The valuations are provided by the managers of the funds and it is industry practice for them to be up to three months or more behind the confirmed valuations on all other investment assets.</td>
<td>Assistant Director – Finance June 2017</td>
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the context of both an earlier accounts closedown timetable, and the currency fluctuations in the period leading up to the EU Referendum, it was considered prudent to not manually adjust the asset values upwards for information received late. The adjustment would not be a material change to the estimate made in the Accounts (total £111.944m for these funds).

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<td>Review the Annual Report to include disclosure of financial indicators of administrative efficiency such as unit costs and benchmarking. In addition, although the list of contributing employers was disclosed in the 2015/16 Annual Report this did not include the amount of contributions received from each.</td>
<td>Officers will consider the inclusion of further detail or disclosure of indicators in the preparation of the 2016/17 Annual Report to best aid the reader, also taking regard of latest guidance or considered best practice amongst other LGPS funds.</td>
<td>Assistant Director – Finance June 2017</td>
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4.24 A comprehensive report on the performance of the Cumbria Local Government Pension Scheme in 2015/16 will be provided in the Annual Report which is to be published by December 2016 and will be available on the Council’s website before this. Key headlines from the Cumbria LGPS accounts are as follows:-

- Net assets increased by £19.493m to £2,046.809m.

- The Fund outperformed its own benchmark over 1 year (by 2.1%), 3 year (by 1.9% pa), 5 year (by 1.0% pa) and 10 year (by 0.5% pa) timeframes, and is 9th in WM LGPS universe for 1 year performance (and 8th, 8th and 16th over the 3, 5 and 10 year timeframes). The 10 year performance is a return of 6.2% per annum.

- The funding level estimate is 76% (2015 79%) at 31st March 2016.

**Value for Money**

4.25 The Audit Findings Report – Cumbria County Council sets out audit findings in relation to the Value for Money assessment (pages 25 to 32). Grant
Thornton intend to issue an “except for” conclusion stating that “with the exception of the matter reported on children looked after, we are satisfied that in all significant respects, Cumbria County Council put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year ended 31st March 2016”. The background to this conclusion has been explained to the Committee in previous sessions by the Auditor. The Council’s Annual Governance Statement for 2015/16 and Action Plan 2016/17 recognises the improvement required with respect to Looked After Children.

4.26 The Audit Findings Report sets out the consideration by the External Auditor in reaching this conclusion.

4.27 There are no recommendations in respect of the value for money conclusion.

**Letter of Representation**

4.28 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 Assistant Director – 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 Assistant Director – Finance (s151 Officer) and Chief Executive. The draft letters of Representation in respect of the two sets of Accounts are attached as Agenda items 6.1 and 6.2. If any amendments are required then these will be presented on the day.

4.29 Full copies of the updated audited Statement of Accounts 2015/16 are attached to this report (Agenda item 6.3) and a hard copy will be made available for Members attending the Committee. A Briefing on the Accounts was provided to the Audit and Assurance Committee in private session after its meeting of 9th September. The draft, unaudited Accounts were published on the Council’s website in June. The Audited Accounts 2015/16 will also be published on the website by the 30th September, upon receipt of the signed Auditor’s opinion.

**Debt Management**

4.30 The Council’s updated Constitution requires the annual position in respect to debt recovery to be reported to the Audit and Assurance Committee as part of the year end reporting routines. The report highlights any significant debts (>£10,000) that have been written off for accounts purposes.

4.31 In respect of Adult Social Care debt the opening balance as at 1 April 2015 was £15.8m, and the closing balance as at 31 March 2016 was £14.0m (Note 29 Nature and Extent of Risks Arising from Financial Instruments – credit risk section - of the Statement of Accounts contains further details). A total of £0.470m non-commercial debt was written off during the year. This included a total of £0.123m of debt where the value of the debt exceeded
£10,000. This related to eight invoices and the reasons for the debt being written off are reported in the table below:

<table>
<thead>
<tr>
<th>Reason for Write Off</th>
<th>£m</th>
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<tbody>
<tr>
<td>Debt is statute barred</td>
<td>0.061</td>
</tr>
<tr>
<td>No contract in place</td>
<td>0.019</td>
</tr>
<tr>
<td>Insufficient funds in the estate</td>
<td>0.031</td>
</tr>
<tr>
<td>Family refused to pay</td>
<td>0.013</td>
</tr>
<tr>
<td><strong>Total debt over £10k written off</strong></td>
<td><strong>0.123</strong></td>
</tr>
</tbody>
</table>

4.32 Overall the Council’s total commercial debt at the start of the year was £6.5m and ended the year at £5.9m. These debts are part of the balances shown in Note 27 Short Term Debtors and Prepayments of the Statement of Accounts. A total of £0.452m commercial debt was written off during the year.

4.33 The Council introduced its Fair Debt Policy during 2015/16 as part of its commitment to a transparent and supportive approach to customers owing money, and to maximise the Council’s cash collection process.

Julie Crellin  
Assistant Director – Finance (s151 Officer)  
14th September 2016

**APPENDICES**

*None*
BACKGROUND PAPERS

None

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