

## **AUDIT AND ASSURANCE COMMITTEE**

Minutes of a Meeting of the Audit and Assurance Committee held on Monday, 27 September 2021 at 10.30 am at Conference Room A/B, Cumbria House

### **PRESENT:**

Mrs HF Carrick (Chair)

Mr NH Marriner  
Mr GD Cook  
Mr SB Collins

Mrs EA Mallinson  
Mr FI Morgan (Vice-Chair)  
Mr J Bell

### **Also in Attendance:-**

Ms P Duke	-	Director of Finance (Section 151 Officer)
Ms A Clark	-	Senior Manager - Pensions and Financial Services (Deputy S151 Officer – Pensions)
Mr P Turney	-	Senior Manager - Accountancy (Deputy s151 Officer)
Ms L Morgan	-	Senior Lawyer - Legal and Democratic Services
Ms F Parker	-	Group Finance Manager - Corporate Accounting
Mr D Hamilton	-	Democratic Services Officer
Mr G Kelly	-	Engagement Lead - Grant Thornton
Mr R Anderson	-	Senior Audit Manager – Grant Thornton

### **PART 1 – ITEMS CONSIDERED IN THE PRESENCE OF THE PUBLIC AND PRESS**

#### **157 APOLOGIES FOR ABSENCE**

There were no apologies received on this occasion.

#### **158 MEMBERSHIP**

There were no changes to the membership made on this occasion.

#### **159 DISCLOSURES OF INTEREST**

There were no disclosures of interest made on this occasion.

#### **160 EXCLUSION OF PRESS AND PUBLIC**

There were no items on the agenda which required the exclusion of press and public.

## **161 MINUTES**

**RESOLVED** that, the minutes of the previous meeting held on 14 September 2021 be agreed as an accurate and complete record.

It was **AGREED** that officers of the Council be asked to consider in their horizon scanning the modelling carried out by University College London in relation to the risk posed by a tsunami caused by volcanic eruptions in La Palma as the areas of the west coast of Cumbria could be impacted.

## **162 ACCOUNTS OVERVIEW 2020/21**

The Director of Finance (s151 Officer) provided a general overview before asking members to consider the County Council, Local Government Pension Scheme (LGPS) and Port of Workington accounts.

In terms of background, the Director of Finance (s151 Officer) explained that as those charged with governance the Audit and Assurance Committee are asked to receive the annual accounts, consider the external auditor's report relating to those accounts and consider and agree the action plan relating to management's response to the auditor's findings.

Members of the Committee had received a presentation and briefing session from the Finance team on the afternoon of Thursday 23 September 2021 where discussion took place regarding the process by which the Accounts had been prepared and audited and the approach to providing assurance in relation to completeness and thoroughness of the accounts. Members also considered the approach of the auditor in undertaking their audit of the Accounts and the progress of the audit and their findings as a part of their training.

Another discussion that was central to the briefing session was in relation to the headlines of the Accounts – for example the Finance Team provided a detailed explanation of how pensions liabilities were calculated for accounting purposes at year end.

The Director of Finance (s151 Officer) thanked those members who attended the training for their input as well as the Finance team in producing a robust and accurate set of accounts. Members noted the added complexity that the significant number of individual COVID grants had brought to both the in-year budget monitoring and the final accounts position.

The Senior Manager – Accountancy (Deputy s151 Officer) provided an overview of the Audited accounts and highlighted that the Audit Findings Report for the Council concluded that again the Council had achieved a very high quality of financial

reporting, with working papers being to a good standard. Grant Thornton positively commented on the effective response time to their audit queries. The Senior Manager Accountancy (Deputy s151 Officer) explained that the very small number and the nature of the adjustments reflect the continuing and sustained improvement and substantial progress the Council has made in strengthening the accounts process over recent years.

The Unaudited Accounts for the County Council and the Cumbria LGPS were published on 1<sup>st</sup> July 2021 in line with the Accounts and Audit (Amendment) Regulations 2021. The unaudited accounts were amended following the change in Cumbria LGPS asset values in August 2021. This gave rise to a decrease in the Council's net pension liabilities of £11.499m which had now been amended in the primary statements. In addition, there were some changes required to disclosure notes to aid the reader's understanding.

Overall, the Council, as at 31 March 2021 still had a negative Balance Sheet position with Total Net Liabilities of £102.303m, which is a deterioration of £68.255m from 31 March 2020. Members were reminded that the Council has had a negative Balance Sheet position as at 31 March for a number of years predominantly as a result of the Pension Liability, which is £986.847m at 31 March 2021. 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 Senior Manager Accountancy (Deputy s151 Officer) explained that the liability is calculated at a point in time (i.e. 31 March) using International Accounting Standards 19 (ISA 19) and had been significantly impacted by Corporate bond yields.

With regards to assets, the Council's total value of Property, Plant and Equipment (PPE) assets was shown on the balance sheet as £1.3bn. The Senior Manager Accountancy (Deputy s151 Officer) explained that the Council currently used a 5-year rolling programme of valuations on these assets but would now move on to a 3-year programme. A significant number of valuations had been undertaken with almost 88% of the Council's portfolio having been revalued in the last 3 years. Members heard that sense checks then took place on these valuations which showed a potential understatement on the balance sheet of £194,000. Given the total value of PPE 1.3bn and the Council's materiality threshold of £12.4m it was judged that the understatement did not represent a material difference. However, Grant Thornton recommended as part of their audit that the use of the index usually applied to valuation of the Council's specialised assets (such as schools and fire stations) was not appropriate to use for non-specialised assets. The Council's response to the recommendation was to agree to using a different index for the 2021/22 audit.

Minimum Revenue Provision (MRP) policy was revised in January 2018 and was considered and approved by the Committee as well as Full Council. The 2017/18 revision from a 4% reduce in balance basis to a 2% straight-line basis gave an overprovision for that period for MRP of almost £37m. Grant Thornton had reviewed the Council's MRP charges over recent years and recommended that the Council review the policy to ensure the provision continued to remain prudent. The Council

responded by commissioning a review of the policy which would be included in the 2022/23 accounts.

The Senior Manager Accountancy (Deputy s151 Officer) added that there was still some work being undertaken to complete the audit but that the Council expects an unqualified opinion on the accounts.

Members raised a query regarding the inclusion of non-material differences between the estimates included in draft accounts and the estimates which appear as part of the audited accounts. The Director of Finance (s151 Officer) explained that though the difference was not over the materiality threshold the Finance team took the decision to recalculate in order to be prudent in the case that it had an effect on the ISA 19 calculations.

The Senior Manager - Pensions and Financial Services provided an overview of the Cumbria LGPS accounts and stated that Grant Thornton's External Audit Findings report had made no recommendations at this stage and found no material errors. Members were provided with assurance regarding the estimated values of Level 3 assets. It was explained that estimates were made prudently, the differences were not found to be material and that differences in estimates of Level 3 investments were commonplace in any pension fund with those type of investments. To conclude, the Senior Manager - Pensions and Financial Services noted that investment performance had been strong over recent years, over a 5-year timeframe the Fund delivered 8.7% per annum net fees.

The Engagement Lead explained to members the implications of the valuing exercise which was still taking place regarding a review to determine whether there was a material difference between estimates and the valuer's expert opinion regarding assets included in the Cumbria Holdings accounts. Members were provided with a background to the standards that Cumbria Holdings accounts abided by and were given assurance that there were plans in place to sign off the accounts whether the difference proved material or immaterial. It was confirmed that the Letters of Representation would need to be amended in the eventuality that the Cumbria Holdings Ltd review proved that any difference between estimates was immaterial.

The Chair summarised by thanking all those involved in the Audit process for performing at such a high level despite the added complexities of both the Covid grant funding and the current auditing process.

**RESOLVED** that,

- 1) Members note the contents of the report.
- 2) Members consider the matters set out by Grant Thornton in the Audit Findings Report in relation to Cumbria County Council (Agenda Item 7a). In particular, to note:
  - I. The headlines

## II. Financial Statements

- 3) Members agree **in principle** the Letters of Representation on behalf of the Council in respect of the Council's accounts to enable Grant Thornton to issue audit opinions 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 items 6a and 6b).
- 4) Members approve the Cumbria County Council Accounts 2020/21 which incorporates the Cumbria Local Government Pension Scheme Accounts on behalf of the Council; and should the Cumbria Holdings Ltd valuation become a material consideration then the Committee agrees to delegate to the Section 151 Officer in consultation with the Chair and Vice-Chair of the Committee the authority to amend the Group Accounts and the Letter of Representation where appropriate. (Agenda item 7a).
- 5) Members authorise the Director of Finance, as the Council's Section 151 (Local Government Act 1972) Officer to sign the Council's accounts on behalf of the Council. (Agenda Items 7a).
- 6) Members agree the completed Action Plan to the Audit Findings Report for the Council (Agenda item 10a).
- 7) Members approve the Port of Workington Harbour 2020/21 Accounts (Agenda Item 8).

### a **Letter of Representation - Cumbria County Council**

The Committee considered the Letter of Representation to the Engagement Lead at Grant Thornton in connection with the audit of the financial statements of Cumbria County Council and its subsidiary undertakings for the year ended 31 March 2021. The Letter of Representation sought to provide the external auditor with the assurance that their audit had been based upon the complete financial picture of the Council, up to the date of the signing of the accounts, and that the accounts were in full compliance with statutory requirements.

The Director of Finance (s151 Officer) asked that members consider the contents of the Letter of Representation and approve the signing of the letter by the Director of Finance (s151 Officer) and Chief Executive.

Approval of this item is recoded at Minute 162.

### b **Letter of Representation - Cumbria Local Govt. Pensions Scheme**

The Committee considered the Letter of Representation to the Engagement Lead at Grant Thornton in connection with the audit of the financial statements of Cumbria Local Government Pension Scheme (LGPS) for the year ended 31 March 2021. The

Letter of Representation sought to provide the external auditor with the assurance that their audit had been based upon the complete financial picture of the Accounts, up to the date of the signing of the Accounts, and that the Accounts were in full compliance with statutory requirements.

The Director of Finance (s151 Officer) asked that members consider the contents of the Letter of Representation and approve the signing of the letter by the Director of Finance (s151 Officer) and Chief Executive.

Approval of this item is recoded at Minute 162.

### **163 AUDITED STATEMENT OF ACCOUNTS 2020/21**

Members considered a report from the Director of Finance (s151 Officer) which provided a detailed overview of the Council's response to the External Audit Findings Report. The Senior Manager Accountancy (Deputy s151 Officer) highlighted the key messages of the Audit Findings Report explaining that Grant Thornton intended to issue an unqualified audit opinion on both the Cumbria County Council and the Cumbria Local Government Pension Fund (Cumbria LGPS) 2020/21 Accounts.

Further discussion and approval of this item is recoded at Minute 162.

### **164 PORT OF WORKINGTON STATEMENT OF ACCOUNTS 2020/21**

The Director of Finance (s151 Officer) provided an overview of the Port of Workington Statement of Accounts 2020/21. It was explained that these accounts were audited separately to the Cumbria County Council accounts by the External Auditor.

Further discussion and approval of this item is recoded at Minute 162.

### **165 ANNUAL GOVERNANCE STATEMENT 2020/21**

Members considered a report from the Chief Legal Officer (Monitoring Officer) which presented and provided the background to the Annual Governance Statement 2020/21.

The Senior Lawyer – Governance explained that since publication of the draft statement the Secretary of State for housing, communities and local government announced his intention to implement proposals for local government reform in Cumbria which would see the creation of two new unitary authorities in Cumbria and the dissolution of the existing authorities including the Council. Members heard that to date this had had no impact on the governance arrangements. In the period running up to the implementation date on 1 April 2023 there would likely be some

impact on the governance arrangements of the Council and so there would be a need to continue to monitor this. On this point, the Senior Lawyer – Governance explained that the Council would continue to work closely and cooperatively with the other authorities in Cumbria to respond to the proposals. In addition, members heard that there has also been an Ofsted inspection which was referred to in the revised statement. Aside from these additions there had been no other significant events which would impact on the governance arrangements since the publication of the draft statement.

**RESOLVED** that,

- 1) Members approve the final Annual Governance Statement of Cumbria County Council for 2020/2021 before its publication on the Council's website.
- 2) Members note that the Leader of the Council and the Chief Executive will sign the Annual Governance Statement prior to publication.

## **166 (GRANT THORNTON ITEMS)**

### **a External Audit Findings - Cumbria County Council 2020/21**

Members considered the External Audit Findings Report for Cumbria County Council for the year ended 31 March 2021. The Engagement Lead and Senior Audit Manager from Grant Thornton provided a detailed account of the contents of the External Audit Findings Report.

The Engagement Lead began by reminding members that there was a new framework for the Value for Money judgement which meant it would be reported as part of a separate annual report by the revised deadline of 8 December 2021.

It was then confirmed that Grant Thornton anticipated issuing an unmodified and unqualified audit opinion and commented on the effective response time to their audit queries. Overall, the very small number and the nature of the adjustments reflected the continuing and sustained improvement and substantial progress the Council had made in strengthening the accounts process over recent years.

Further discussion and approval of this item is recoded at Minute 162.

### **b External Audit Findings - Cumbria Local Government Pensions Scheme 2020/21**

The Engagement Lead and Senior Audit Manager from Grant Thornton provided a detailed account of the contents of the External Audit Findings Report for the Cumbria Local Government Pensions Scheme 2020/21.

Members were reminded of the challenges faced by both the Council's Finance team and the External Audit team in producing the audited accounts to this point. The Audit work was completed remotely during June – September 2020/21. Members heard that one misstatement had been identified which management had not adjusted for in the financial statements on the grounds of materiality. This misstatement would increase the Schemes Net Assets by £19.8 million.

Further discussion and approval of this item is recoded at Minute 162.

#### **168 FORWARD PLAN - AUDIT AND ASSURANCE COMMITTEE**

It was **AGREED** that a report titled the Annual Auditors Report be added to the agenda for the December meeting of the Committee.

It was **AGREED** that a report relating to the Future Procurement of External Auditors be added to the agenda for the December meeting of the Committee.

#### **169 DATE & TIME OF NEXT MEETING**

The next meeting of the Audit and Assurance Committee is due to take place on 3 December 2021 in Conference Room A/B, Cumbria House.

The meeting ended at 13:00pm