

The Audit Findings for Cumbria Local Government Pension Scheme

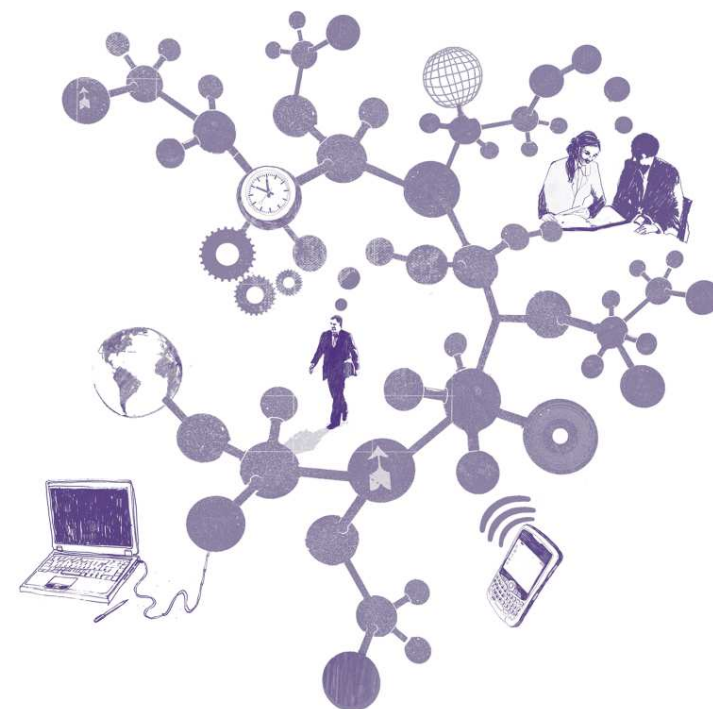
Year ended 31 March 2016

September 2016

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21 September 2016

Dear Members

Audit Findings for Cumbria Local Government Pension Scheme for the year ending 31 March 2016

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

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Yours sincerely

Jackie Bellard
Engagement lead

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Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

We plan to give an unqualified opinion on the financial statements. We identified one adjustment affecting the Fund's reported position, with an understatement of £3.751 million. This is unadjusted by management. This is not a material misstatement, and non adjustment does not impact upon the opinion.

We are pleased to report the Pension Fund has produced good quality financial statements for 2015/16, in terms of both compliance with the CIPFA Code of Practice and supporting working papers.

Purpose of this report

This report highlights the key issues affecting the results of Cumbria Local Government Pension Scheme ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Pension Fund Annual Report.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 21 March 2016.

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

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

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

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B). We have also included our anticipated unqualified opinion on the Annual Report at Appendix C.

Key audit and financial reporting issues

Financial statements opinion

We have identified one understatement adjustment which improves the Fund's reported financial position by £3.751 million. Management are not amending for the adjustment. More detail is summarised below, and is set out fully on page 19 of this report. The value of the adjustment is not material, and this non-adjusted error does not impact upon the opinion.

We have also recommended one disclosure and presentational adjustment, and this is set out fully on page 20 of this report. Some other minor presentational adjustments recommended to improve the financial statements disclosures were also made by management.

The key messages arising from our audit of the Fund's financial statements are:

- one unadjusted adjustment was identified for £3.751 million. The decision to not adjust does not impact upon the audit opinion, as the total valuation of investment assets in the net assets statement is £2.034 billion. The issue arose as more up to date information was available before the accounts were authorised for issue. When reviewed, the 31 March 2016 position for three managers was £3.751 million higher than reported in the financial statements. A recommendation is made in the action plan at Appendix A; and
- the Pension Fund has produced good quality financial statements for 2015/16, in terms of both compliance with the CIPFA Code of Practice and supporting working papers.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

Further details are set out in section two of this report.

Controls

Roles and responsibilities

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

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

Our work has not identified any significant control weaknesses. Additional journal authorisation processes have been introduced during 2015/16. Every month for the preceding month, journals are reviewed and authorised retrospectively. This was introduced from November 2015, with an exercise carried out on April to October 2015 journals to authorise those during November 2015.

Further details are provided within section two of this report.

The way forward

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

We have made a recommendation, which is set out in the action plan at Appendix A. The recommendation has been discussed and agreed with the Assistant Director - Finance and the pensions finance team.

Acknowledgement

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

Grant Thornton UK LLP, September 2016

Section 2: Audit findings

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises the findings of the audit, the final level of materiality used, and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls.

There are no significant issues to raise. The full detail of the £3.751 million non-adjusted misstatement is included in this section of the report.

Materiality

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

As we reported in our audit plan, we determined overall materiality to be £19.736 million (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and as a result we have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £0.986 million. This remains the same as reported in our audit plan.

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

Balance/transaction/disclosure	Explanation
Management expenses	Due to public interest in these disclosures and the statutory requirement for them to be made.
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Cumbria Local Government Pension Scheme, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Cumbria County Council as the administering authority, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any material issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of entity controls; • testing of journal entries; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Level 3 Investments – Valuation is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • we gained an understanding of the transaction including a review of supporting documentation; • we carried out walkthrough tests of the controls identified in the cycle; • tested a sample of investments by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March 2016 with reference to known movements in the intervening period; • reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; • reviewed the nature and basis of estimated values and considered what assurance management has over the year-end valuations provided for these types of investments; and • reviewed the competence, expertise and objectivity of any management experts used. 	<p>Our audit work has identified an understatement of £3.751 million in respect of the valuation of 3 investment manager portfolios that impact upon level 3 investments. The full detail is on this issue is provided on page 19.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. One recommendations, together with management response is attached at appendix A.

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

Audit findings against other risks (continued)



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

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefits payable	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • we have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding; • controls testing over, completeness, accuracy and occurrence of benefit payments; • tested a sample of individual pensions in payment by reference to member files; and • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained. 	<p>Our audit work has not identified any significant issues in relation to the risk identified, but one matter noted is outlined below.</p> <p>Our sample testing of benefit payments included a payment to a new pensioner who had taken a flexible retirement. 'Your Pensions Service' had already identified that the pensioner had returned to employment at the same level as before their retirement, thus invalidating the terms of their flexible retirement. A new flexible retirement has now been put in place and overpaid benefit will be recovered against future entitlements. This did not constitute an error in our testing as the information received and input was based upon the correct information at the time. It is noted that procedures have been strengthened to include further checks on flexible retirements as a result of this issue.</p>
Member Data	Member data not correct. (Rights and Obligations)	<p>We have undertaken the following work in relation to this risk;</p> <ul style="list-style-type: none"> • we have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding, • controls testing over annual/monthly reconciliations and verifications with individual members, and • sample tested changes to member data made during the year to source documentation. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

Accounting policies, estimates and judgements

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

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Contribution income: Normal contributions for both employees and employers and bulk transfers are accounted for on an accruals basis. Individual transfers to the scheme are recognised on a receipts basis. Investment Income: The Fund adopts several different recognition approaches dependent on the types of investment as disclosed within the statements. 	<ul style="list-style-type: none"> Policy is consistent with the prior period, meets the requirements of the Code of Practice on Local Authority Accounting and is in line with the CIPFA's disclosure checklist and example accounts. There is limited judgement involved in revenue recognition as a result of: <ul style="list-style-type: none"> contributions rates are known in advance via the triennial valuation of the scheme; investment income following market trends and is overseen by the Custodian and transfers are subject to defined actuarial calculations; and there being agreement between the bodies. Our testing has not identified any inappropriate revenue recognition. 	 (Green)
Judgements and estimates	<p>Key estimates and judgements include;</p> <ul style="list-style-type: none"> pension fund valuations and settlements, investment valuation, and provisions. 	<ul style="list-style-type: none"> Policies are consistent with the prior period, meet the requirements of the Code of Practice on Local Authority Accounting and are in line with the CIPFA Disclosure checklist requirements and example accounts. Judgements are made regarding the present value of promised retirement benefits, the fair value of investments and the ability of debtors to pay. The Fund employs an independent actuary, valuer and custodian and uses previous experience of debt recovery to inform judgements made . The valuation of the Fund's investment portfolio has been substantively tested to gain assurance that it is not materially misstated. As already reported, an understatement of £3.751 million to the financial statements was identified, this is outlined fully on page 19. A recommendation is made in the action plan at Appendix A. We have confirmed that the work of the actuary is in line with professional standards and regulation, and that they are a reliable source of estimation relating to the pension fund liabilities. 	 (Green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators (Red)

● Accounting policy appropriate but scope for improved disclosure (Amber)

● Accounting policy appropriate and disclosures sufficient (Green)

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● (Green)
Other accounting policies	We have reviewed the Fund's other accounting policies against the requirements of the CIPFA Code and accounting standards.	The Fund's accounting policies are appropriate and consistent with previous years.	● (Green)

Assessment

● Marginal accounting policy which could potentially attract attention from regulators

● Accounting policy appropriate but scope for improved disclosure

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Assurance Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund. The unadjusted misstatements noted on page 19 to this report will be included as an appendix to the letter of representation confirming the reasons for non-adjustment.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from all external fund managers and custodian for investment balances and requested management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All requests were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements. The following adjustments were identified and amended by management to enhance existing disclosures. Comparators for 2014/15 were added in Note 10f for investments representing more than 5% of the net assets of the fund.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We did not identify any significant issues to report on this issue. We review the content of the Annual Report to ensure compliance with relevant technical guidance. We identified that disclosure was omitted for financial indicators of administrative efficiency such as unit costs and benchmarking. In addition, although the list of contributing employers was disclosed this did not include the amount of contributions received from each. Any amendments identified within the Annual Report were minor to improve presentation, and do not warrant further reporting.

Internal controls

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

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Income, Contributions, Benefits Payable, and Member Data as set out on page 11 to 13 above.

The controls were found to be operating effectively and we have no matters to report to the Audit and Assurance Committee.

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	Journal Entry Controls <ul style="list-style-type: none"> The issue of journal authorisation was raised in the 2014/15 Audit Findings Report, and also in prior years. We reviewed the Fund's journal entry policies and procedures as part of determining our journal entry testing strategy. We identified the lack of journal authorisation controls as an issue which may adversely impact on the Fund's control environment or financial statements. Our work did not identify any other issues from our journals testing and the Fund were satisfied that other compensatory controls were in place, such as e5 journal restrictions to finance staff. Our Audit Findings Report included a recommendation, as from an audit perspective we would still expect some form of journal authorisation in line with ISA 240 and 315, even if it is operated at a batch level for more at risk categories of journals. 	<ul style="list-style-type: none"> Additional journal authorisation processes have been introduced during 2015/16 for manual journals. Every month for the preceding month, journals are reviewed and authorised retrospectively. This was introduced from November 2015, with an exercise carried out on April to October 2015 journals to authorise those during November 2015. Walkthrough testing confirms the control is operating as planned, and our testing of journals did not highlight any issues. Satisfactory assurance has been gained that the authorisation issue has been addressed by officers.

Assessment

- ✓ Action completed
 X Not yet addressed

Adjusted misstatements

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

Unadjusted misstatements

The table below provides details of adjustments identified during the 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	Reason for not adjusting
<p>1 The valuation in the financial statements for three investment managers was understated by £3,751 million, as the actual 31 March 2016 valuations had not been used. Net Investment Assets in the draft accounts were valued at £2.034 billion, our audit work identified that the valuation should have been £2.038 billion. For the three investment managers, an estimate had been used by the custodian for the 31 March 2016 position, using known cash movements. It is usual practice for certain types of investment to have longer lead times in the reporting to the Fund and custodian. More up to date information was available before the accounts were authorised for issue so investment values could have been amended. Although there are other minor variances on some other investment manager portfolios, the remaining balance is below the trivial level for reporting. The detail of the adjustment is as follows, the:</p> <ul style="list-style-type: none"> Unigestion portfolio was based upon a 30 September 2015 position with estimation to 31 March giving a valuation of £10.370 million. The actual 31 March 2016 position was £11.651 million, which is £1.281 million higher than the value in the accounts; JP Morgan portfolio was based upon a 31 December 2015 position with estimation to 31 March, giving a valuation of £84.449 million. The actual 31 March 2016 position was £86.564 million, which is £2.115 million higher than the value in the accounts; and M&G real estate debt fund was based upon a 31 December 2015 position with estimation to 31 March giving a valuation of £17.125 million. The actual 31 March 2016 position was £17.481 million, which is £0.355 million higher than the value in the accounts. 	<p>(3,751)</p> <p>Profit and loss on disposal of investments and changes in the market value of investments</p>	<p>3,751</p> <p>Investment Assets</p>	<p>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&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. In 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 £111.944 million for these funds).</p>
Overall impact	(£3,751)	£3,751	

Misclassifications and disclosure changes

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

Adjustment type		Value £'000	Account balance	Changes to the financial statements
1	Disclosure	n/a	Note 10f – investments representing more than 5% of the net assets of the fund	<ul style="list-style-type: none">• Disclosure for 2014/15 was added to the existing note to provide comparator information.

Section 3: Fees, non-audit services and independence

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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

We confirm below our final fees charged for the audit.

Fees

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

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

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

Ethical standards and International Standards on Auditing (ISA) 260 require us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- One of the members of the audit team John Cangle is a personal friend of Alison Clark, the former Group Finance Manager – Pensions, Treasury and Insurance. This is not deemed to be a significant independence risk. It is mitigated through the auditor not auditing balances and transactions within the investment and cash cycles. Instead, our work in this area is carried out by the In-charge Auditor.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Section 4: Communication of audit matters

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

This section summarises our communication requirements to you as 'those charged with governance'. We confirm that all required reporting is included within the audit plan or this audit findings report.

Communication to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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

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

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	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.	Medium	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&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. In 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).	Assistant Director – Finance June 2017
2	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.	Low	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.	Assistant Director – Finance June 2017

Appendix B: Draft proposed audit opinion

We anticipate we will provide the scheme with an unmodified audit report

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

We have audited the pension scheme financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension scheme financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes . The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

Respective responsibilities of the Assistant Director – Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Assistant Director - Finance is responsible for the preparation of the Authority’s Statement of Accounts, which includes the pension scheme financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension scheme financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the pension scheme financial statements

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

Opinion on the pension scheme financial statements

In our opinion the pension scheme financial statements:

- present a true and fair view of the financial transactions of the pension scheme during the year ended 31 March 2016 and of the amount and disposition at that date of the scheme’s assets and liabilities, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension scheme financial statements in the Authority's Statement of Accounts and Annual Governance Statement is consistent with the audited pension scheme financial statements.

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

4 Hardman Square
Spinningfields
Manchester
M3 3EB

To be dated 2016

Appendix C: Draft proposed audit opinion on the annual report

We anticipate we will provide the scheme with an unmodified audit report

Independent auditor's report to the members of Cumbria County Council on the consistency of the pension scheme financial statements included in the pension scheme annual report

The accompanying Pension Scheme (the "scheme") financial statements of Cumbria County Council (the "Authority") for the year ended 31 March 2016 which comprise the pension fund account, the net assets statement and the related notes are derived from the audited pension scheme financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension scheme financial statements in the Statement of Accounts in our report dated xx. 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 is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer 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 Authority 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 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension scheme financial statements in the pension scheme annual report are consistent with the pension scheme financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the Cumbria Local Government pension scheme annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Cumbria Local Government pension scheme financial statements. The other information consists of Chairman's Introduction, Annual Report of the Cumbria LGPS Pension Board for 2015/16, The Local Government Pension Scheme, Management and Financial Performance, Investment Policy and Performance, Fund Administration Report and Administration Strategy, Actuarial Report on Funds, Governance Compliance Statement, Funding Strategy Statement, Statement of Investment Principles, Communications and Other statements and Information.

Opinion

In our opinion, the Cumbria Local Government pension scheme financial statements in the pension scheme annual report derived from the audited pension scheme financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

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

4 Hardman Square
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To be dated 2016



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