The Audit Findings for Cumbria County Council

Year ended 31 March 2021

September 2021

Contents

Your key Grant Thornton team members are:

Gareth Kelly
Key Audit Partner
T: 0141 223 0891
E: Gareth.Kelly@uk.gt.com

Richard Anderson
Engagement Manager

Natasha Ayre
Engagement In-Charge

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit and Assurance Committee.

Gareth Kelly

Name : Gareth Kelly
For Grant Thornton UK LLP
Date : September 2021

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cumbria County Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2021, for those charged with governance.

Financial Statements Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS), Narrative Report and Pension Scheme Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work was completed remotely between June and September 2021. Our findings are summarised in this report. We have identified one issue in the financial statements that has resulted in a £11.5 million adjustment to the Council's Pension Liability. Audit adjustments are detailed in Appendix C. We have also raised recommendations for Management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B. Our work is now complete and there are no matters of which we are aware that would require modification of our audit opinion. We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited. Our audit report opinion is unmodified.
Value for Money (VFM) arrangements Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance.	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix G. We expect to issue our Auditor's Annual Report before 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work to date has not identified any significant weaknesses.
Statutory duties The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We expect to certify the completion of the audit upon the finalisation of our work on the Council's VFM arrangements and Whole of Government Accounts return, which will be reported in our Annual Auditor's report in December 2021.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters during our audit.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit and Assurance Committee.

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

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that analytical procedures were appropriate in all areas with exception of Provisions where we carried out specified audit procedures.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to the Audit and Assurance Committee in June 2021.

Conclusion

We have completed our audit of your financial statements and issued an unqualified audit opinion, as detailed in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times. The Accounts have been produced to a very high standard and the finance team have produced good working papers and have been responsive to our audit queries.

2. Financial Statements

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan in June 2021. We detail in the table to the right our determination of materiality for the Council and Group.

	Group Amount (£000)	Council Amount (£000)	Qualitative factors considered
Materiality for the financial statements	12,920	12,396	1.3% of prior year gross operating costs. This reflects the public profile of the Council.
Performance materiality	9,044	8,677	70% of headline materiality
Trivial matters	646	620	5% of headline materiality
Materiality for Senior Officer Remuneration	5	5	Due to heightened reader interest in this sensitive area. This is equivalent to one banding in Officer Remuneration table.

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.	In response to this risk we; • evaluated the design effectiveness of management's controls over journals • analysed the journals listing and determined a criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work did not identify any issues in respect of this significant risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Cumbria County Council, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for Cumbria County Council.
ISA 240 improper expenditure recognition Under ISA (UK) 240 there is a rebuttable presumed risk that expenditure may be misstated due to the improper recognition of expenditure. Whilst we have rebutted the ISA 240 presumption of fraud in revenue recognition, we have not rebutted the presumption for expenditure. The current Covid-affected economic environment has placed additional strains on already stretched public sector budgets. There is also significant pressure on authority's to set a balanced budget and to limit excessive use of reserves to balance budgets. We have therefore determined that there is a completeness risk, which applies to all non-pay expenditure excluding depreciation, amortisation, audit fees and revaluation adjustments. Our focus therefore, is on expenditure which impacts upon the General Fund. Our procedures described to the right will also provide assurance against the risk of recording 2021/22 expenditure against the 2020/21 budget due to the availability of funding in this financial year.	In response to this risk we have: • evaluated the Council's policy for the recognition of non-pay expenditure • compared listings of 2019/20 accruals to those of 2020/21 to ensure completeness of significant recurring items • documented the goods received not invoiced accruals process and the processes management have in place, challenging key assumptions, the appropriateness of source data and the basis for calculations • obtained a listing from the cash book of non-pay payments made in April and May 2021 to ensure they have been charged to the appropriate year • obtained a listing from the AP system of invoices received in April and May 2021 to ensure they have been charged to the appropriate year • substantively tested a sample of year-end creditor and accrual balances. Our audit work did not identify any issues in respect of this significant risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net liability The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£986.847 million) in the Authority's balance sheet and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular, the discount and inflation rates, where our consulting actuary has indicated that a +/- 0.1% change in these two assumptions would have approximately +/- 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	In response to this risk we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtained assurances from the auditor of Cumbria Local Government Pension Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The estimate of the Council's share of assets held by the Cumbria Local Government Pension Scheme was based on an estimated valuation of the pension scheme at 31 March 2021. The actual value is £19.8 million higher. The Council's share of this increase in value was £11.5 million. The audited accounts have been updated to reflect this increase in value. See Appendix C for further details. In Note 32 Unusable Reserves, narrative disclosure has been added to the Pension Reserve note to explain the Council's accounting treatment for its lump sum early payment of £7.609 million, for the three year period from 1st April 2020. The narrative explains why there is an imbalance between the Net Pension Liability and the Pension Reserve. In Note 34 Defined Benefit Pension Scheme, reference to the 2016 Actuarial Valuation has been updated to the 2019 Actuarial Valuation. The breakdown of assets in Note 34.3 LGPS Pension Scheme Assets has been updated to reflect the correct split, as per the Pension Scheme accounts. Our audit work did not identify any issues in respect of this significant risk.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Land & Buildings The Council revalues its land and buildings on a rolling basis. These valuations represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, for land and buildings, management will need to ensure the carrying value in the financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used. We therefore identified valuation of land and buildings as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.	In response to this risk we have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written out to them and discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding • engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuation report and the assumptions that underpin the valuation • tested revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year-end Our auditors valuation expert has concluded that in overall terms, the valuation process is in line with the mandatory requirements specified by RICS and the CIPFA Code of Practice. Both Management's and the audit team's assessment of assets not revalued during the year indicated that there was not a risk that the current and carrying value of these assets was materially different. Management could strengthen its assessment of assets not revalued by using specific indices for its non-specialised assets, as the value of these assets will not move in line with the BCIS indices. See Appendix A for this recommendation. Our 2019/20 audit identified that there were 41 assets carried in the balance sheet at an estimated valuation. The Council's finance team estimated the DRC valuation for these assets at 31 March 2019 with input from the in-house valuation team. The estimated value was £74.571 million. The assets were subsequently formally valued by the in-house valuation team in September 2020 at £69.038 million This indicated that the values included in the balance sheet at 31 March 2019 were overstated by £5.532 million. This also had an immaterial impact on the depreciation charge for 2019/20 (£0.267 million), the amount charged to Other Comprehensive Income and Expenditure in 2018/19 (£5.532 million) and the closing balance at 31 March 2020. This had no impact on the Council's usable reserves balances. This misstatement is reflected in prior year comparators and opening balances in the 2020/21 financial statements. Of these 41 assets, 37 were included in the 2020/21 revaluation programme and 4 are to be valued in 2021/22. The difference between the estimated value and the desktop value provided by Property in September 2020 is a potential overstatement of £0.797 million. When this is included in the assets not revalued consideration the overall potential misstatement of PPE is £0.602 million, which is clearly not material. The impact on depreciation charge for 2020/21 is a £0.013 million overstatement, which is clearly trivial. Our audit work has not identified any other issues in respect of this significant risk.

2. Financial Statements – Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Cumbria County Holdings Limited	Desktop review performed by audit team. Specified procedures on Landfill Provision (£13.205 million)	We performed a desktop review including analytical procedures and gained an understanding of the consolidation process. We have reviewed the basis of the Provision. We have agreed the calculation, key inputs and key assumptions adopted. We have agreed that it is a reasonable estimate and is correctly classified as a Provision, as per IAS 37.	Our audit work has not identified any issues in respect of the analytical procedures performed on the group consolidation or the specified procedures on the Council's landfill provision.

The Code of Practice on Local Authority Accounting in the United Kingdom concludes that schools are separate entities and that under IFRS 10, maintained schools (but not free schools or academies) meet the definition of entities controlled by local authorities, which should be consolidated in group accounts. However, rather than requiring local authorities to prepare group accounts, the Code allows local authorities to account for maintained schools within their single entity accounts. This includes school income and expenditure as well as assets and liabilities. This is the approach adopted by the Council.

Some disclosure changes were made to the Group Accounts. The Group Movement in Reserves Statement has been updated to disaggregate usable reserves and meet the requirements of the Code paragraph 3.4.2.58.

Our work on the Group consolidation identified that the land and buildings and landfill sites of Cumbria Waste Management are carried in the Group Balance Sheet at cost of £6.3 million. This is not in line with the requirements of the code, which require these assets to be carried at current value. We requested that management provide an estimate of the current value of these assets to determine whether there is a risk of material misstatement to the Group accounts in relation to this issue. The Council has appointed a specialist valuer to provide a current value valuation of these assets. The valuer and Council have provided us with sufficient and appropriate audit evidence which indicates that there is not a material difference between the current value and the cost of these assets. Group accounting policy 7.4 has been updated to reflect that the Council has commissioned a specialist valuation expert to support their judgement that there is not a material difference between current value and the cost of these assets.

In response to this issue we have performed the following procedures

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert;
- confirmed the basis on which the valuation was carried out;
- met with the valuer on 3 occasions to discuss the valuation and challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding; and
- engaged our own auditor's expert valuer to assess the process followed by the valuation expert.

We are satisfied that the work of the Council's valuations expert support that there is not a material difference between the cost and current value of the land and buildings and landfill sites of Cumbria Waste Management which are carried in the Group Balance Sheet at cost.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020/2021 statements to comply with the requirement of IAS 8 para 31. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases	Note 1 makes reference to IFRS16 and discloses the date of implementation and that there is still some uncertainty about the extent of the impact.	We are satisfied that your disclosure is consistent with the requirements of IAS 8.
Recognition and Presentation of Grant Income The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal/ agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income	Judgement is required to determine whether the Council can be reasonably assured that the conditions of grant and contribution monies received have been met before recognising them as income in the Comprehensive Income and Expenditure Statement. Where conditions require specified expenditure to have taken place, the grant monies will not be recognised until this happens. Equally, where conditions specify that a grant or contribution must be repaid in the event of non-expenditure, the income is not recognised until the expenditure is incurred. We have tested 36 grants with a total value of £797.407 million. We have also reviewed treatment of Grants to confirm the Council has correctly determined whether it is acting as agent or principal and whether specific conditions of grants have been met. We have carried out a further review to confirm the correct treatment of Covid related Grant Income.	We are satisfied that Grant Income is fairly stated in the Council's accounts.
Additions Our testing of additions identified an invoice for capital works at a school carried out in December 2019 with a value £19,219. This has been incorrectly treated as an addition in 2020/21. It should have been accounted for as an addition in 2019/20..	The extrapolated impact of this is that capital additions in 2020/21 are overstated by £1.607 million. There is no impact on the value of Property Plant and Equipment carried in the Balance Sheet	This is classified as an unadjusted misstatement in Appendix C.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £553.166 million	Other land and buildings comprises £475.03 million of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings, including DRC land, (£51.006 million) are not specialised in nature and are required to be valued at existing use value (EUV) at year-end. The Council has engaged their internal valuation team to complete the valuation of properties as at 31 March 2021, on a five yearly cyclical basis. Assets with a net book value of £191.4 million have been valued in year, this represents 35% of the asset base. Management has carried out an exercise to demonstrate that there is not a material difference between the carrying value and current value of assets not revalued at 31 March 2021. This indicates a potential difference of £0.194 million at 31 March 2021, which management has concluded is immaterial to the financial statement. Management could strengthen its assessment of assets not revalued by using specific indices for its non-specialised assets, as the value of these assets will not move in line with the BCIS indices. See Appendix A for a related recommendation. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors and in accordance with the CIPFA Code of Practice on Local Authority Accounting. For specialised assets, the valuer considers what the Modern Equivalent Asset would comprise using the latest Government design guidance and/or service input. For schools, the size reflects the number of pupils it would be built for using the Council's pupil number records. An allowance is made for age and obsolescence for the existing buildings on site from a functional, economic and physical perspective. Land value are based on comparable costs to purchase or compulsory purchase land in the given location. EUV valuations are informed by the most recent transactional activity. The Council also holds £21.175 million of Surplus Assets. These are valued at Fair Value. £12.382 million of these assets were valued at 31 March 2021.	The Council's accounting policy on the valuation of land and buildings is included at Accounting Policy xi. **Key observations** The values in the valuation report have been used to inform the measurement of property assets at valuation in the financial statements. • We assessed the qualifications, skills and experience of the valuer and determined the service to be appropriate. • The underlying information and sensitivities used to determine the estimate was considered to be complete and accurate. • The valuer prepared their valuations in accordance with the RICS Valuation – Global Standards using the information that was available to them at the valuation date in deriving their estimates. • Our auditor's valuation expert has concluded that in overall terms, the valuation process is in line with the mandatory requirements specified by RICS and the CIPFA Code of Practice • We have uplifted assets not-valued in year using Gerald Eve indices and considered local market factors to support management's assessment that there has been no material changes to the valuation of land and buildings not valued in year. • We consider the level of disclosure in the financial statements to be appropriate.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £986.847 million	The Council's total net pension liability at 31 March 2021 is £986.847 million comprising the Cumbria Local Government Pension Scheme (LGPS) £638.412 million, Firefighters Pension Schemes £320.620 million and Teachers Pension Scheme £27.814 million. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £131.274 million increase in the net pension liability during 2020-21. The Council's Actuary, Mercer Ltd, have calculated some approximate effects of the costs of extending the transitional protections to younger members. The costings of the potential effect of McCloud at 31st March 2021, based on individual member data as at 2019 actuarial valuation and the results of those calculations based on the IAS19 assumptions have been included in the net pension liabilities on the Council's Balance Sheet.	See below	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Audit Comments

In understanding how management has calculated the estimate of the net pension liability we have:

- assessed the use of a management's expert actuary and their calculation approach
- used PwC as auditors expert to assess actuary and assumptions made by the actuary (see table below)

Assumption	Actuary Value LGPS	Actuary Value Fire	PwC range (LGPS)	PwC range (Fire)	Assessment
Discount rate	2.1%	2.1%	2.1%- 2.2%	2.1%- 2.2%	●
Pension increase rate	2.8%	2.8%	2.8%	2.8%	●
Salary growth	4.2%	4.2%	2.5%-4.2%	2.5%-4.2%	●
Life expectancy – Males currently aged 45 / 65	24.3/ 22.7	Note 1	22.5 – 24.7 /20.9 – 23.2	23.5 – 24.3 / 21.5 – 22.2	●
Life expectancy – Females currently aged 45 / 65	27.2/ 25.3	Note 1	25.9 – 27.7/24-25.8	25.6 – 26.3/ 23.4 – 24.1	●

Note 1 - Although outside the PWC range, the methodology used to calculate life expectancy was reasonable and we have corroborated the ages used to supporting evidence.

- assessed the completeness and accuracy of the underlying information used to determine the estimate, including liaison with the auditor of Cumbria Local Government Pension Scheme;
- undertook a reasonableness test of the Council's share of LGPS pension assets and the reasonableness of the movement in the estimate; and
- assessed the adequacy of disclosure of estimate in the financial statements.

Conclusion

As disclosed on page 8, the net pension liability was restated by £11.5 million following audit. We are satisfied that the estimate of your net pension liability is not materially misstated.

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £7.939 million	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. In November 2016, the Council approved a change to the MRP policy for supported and pre 2008 borrowing from 4% reducing balance to 2% straight line. This aimed to calculate an MRP charge which was more aligned with the period over which the underlying assets provides benefit (see Accounting Policy iv). In the case of capital spend incurred before 1st April 2008 and spend financed by "supported" borrowing in all the following years; from 1st April 2009 this is charged on a 2% straight line basis. This ensures that the debt will be repaid within 50 years. In the case of all capital spend financed by Prudential Borrowing; this is subject to MRP under the Asset life method – equal instalments charged over the estimated life of the asset. MRP is based on the estimated life of the assets, in accordance with the regulations. Repayments included in the annual PFI charges or finance leases are applied as MRP.	At 31 March 2021, the Council's MRP was £7.939 million. At 31 March 2020 the MRP was £3.304 million. The MRP represents 1.42% of the Council's overall Capital Financing Requirement. This has increased from 0.60% at 31 March 2020. This is a measure of the pace at which charges to revenue (GF) are being made to finance capital expenditure that has not previously been financed. The overarching requirement is for authorities to determine a "prudent" provision, rather than to follow a particular basis of calculation. If the MRP is too low, the burden of financing capital assets will fall on future generations of tax-payers. We have recommend that the Council review it's MRP policy to ensure the provision continues to be prudent and is sufficient to finance capital expenditure that has not previously been financed through the application of capital receipts, capital grants or direct revenue charges. See Appendix A for this recommendation.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Assessment

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

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Assurance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the 33 newly identified landfill sites, which are disclosed in the Council's Contingent Liability Note 39. Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for the valuation of pension liability, valuation of PFI liability, valuation of land and buildings, provisions, year end income and expenditure accruals, depreciation and fair value disclosures. The letter of representation is appended to this report in Appendix F, and is also included in the Audit and Assurance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests in relation to all cash, investment and borrowing balances. This permission was granted and the requests were sent out.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements

Issue	Commentary
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. The following changes were made following audit: • The references to “fair value” in accounting policy xi Property Plant and Equipment and Note 21 - Property, Plant and Equipment has been changed to “current value” to reflect the correct valuation basis for operational assets. The reference to the Council undertaking rebuilding of a School on behalf of an academy has been removed from accounting policy xi Property Plant and Equipment as the Council no longer does this. Accounting policy xviii Reserves has been updated to clearly reference the Statutory General Fund. Accounting policies xix Interest in Companies and Other Entities and xx. Joint Arrangements have been updated to reflect the correct definition of control and Joint Venture. • References in the Movement in Reserves Statement and associated notes have been updated to be clear which balance represents the Statutory General Fund. • Note 2 - Critical Judgements in Applying Accounting Policies has been updated to give details about the specific judgements made by the Council as opposed to just describing the application of accounting policies. The disclosure in relation to academies has been moved to accounting policies as this is not a judgement. Further narrative has been added for PPE, Grants and Leases to reflect key judgements made. Reference to Group Accounts not being required for NW Fire control have been removed as it is a joint operation, so would not need to be included in the group accounts. Note 38 Related Parties has also been updated to reflect this. • In Note 3 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty, disclosures in relation to depreciation and provisions have been removed as neither is a source of material estimation uncertainty. The disclosure relating to fair value measurement has been updated to refer to the carrying value and include a sensitivity analysis. • Columns were added to the Expenditure and Funding Analysis to show Net Expenditure reported to Members and the adjustment for DSG Reserve transfer to Unusable Reserves. Further disclosure was added to the note to the Expenditure and Funding Analysis to explain that Other Statutory Adjustments represents the minimum revenue provision, interest payable and receivable that are reported as part of service net expenditure during the year but for statutory accounting purposes are part of Financing and Investment Income and Expenditure. A column for Interest Expense was added to Note 4.2 - Segmental Analysis of Income and Expenditure. • In Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations, the line 'Council tax and NDR (transfers to or from the Collection Fund)’ has been updated to read “Collection Fund Adjustment Account” rather than “Collection Fund”. • In Note 11- Pooled Budgets, disclosure has been added to confirm that the partners each account for their own share of the income and expenditure. • In Note 24 - Financial Instruments, reference to Financial assets held at Fair value through other comprehensive income has been changed to measured at cost as this relates to the Council’s £3.183 million holding in Cumbria County Holdings Ltd, which is held at cost. Prepayments have been removed from Financial Instruments as these are not Financial Assets. In the draft accounts the Council measured its Money Market Funds (53.502 million) at Amortised Cost. We have challenged this classification. The Councils business model is to hold these investments to collect contractual cash flows. The Council therefore classified as amortised cost. However the standard also required that they are solely payment of principal and interest. The Council accept that this test is not met and agreed that the correct classification is to carry at Fair Value Through Profit and Loss. Note 24 has been updated to reflect this. Note, this also impacts the prior year figure of £51.427 million. This has no impact on the amounts carried in the Balance Sheet. • In Note 25, Financial Liabilities held at Amortised Cost have been disaggregated into the following categories; Public Works Loans Board, Market Loans and Other. The fair value of the PFI Liability was incorrectly based on the premature redemption rate. In the draft accounts this was shown as £204.685 million , this has been updated to £189.495 million in the final accounts, which is the fair value based on the new borrowing rate. This also impacts the prior year figure which has been updated from ££224.446 million to £189.821 million. This has no impact on the amounts carried in the Balance Sheet. • In Note 28 - Short Term Creditors, Other Payables (£84.167 million) has been disaggregated to show the significant payables that it is made up of. • In Note 29 - Provisions, narrative disclosures have been added to the note to explain the nature of each provision. • In Note 35 - Cash Flow from Operating Activities, the line “Any other items for which the cash effects are investing or financing cash flows” has been updated to “Capital Grants”. Other receipts from investing activities in Note 36 has also been updated to “Capital Grants”.

2. Financial Statements - other communication requirements

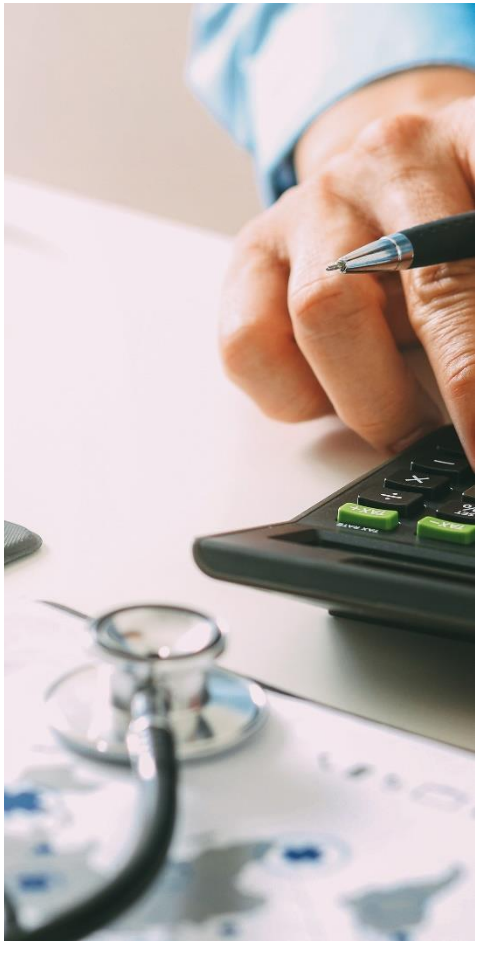
Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Scheme Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We plan to issue an unmodified opinion in this respect as outlined in Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported any significant weaknesses. We have nothing to report in these areas.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statement. We are aware that the 2020-21 WGA Data Collection Tool will not be available until at least December 2021 . We will be unable to complete our work in this area before this date.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of Cumbria County Council in the audit report, as detailed in Appendix E, due to us not having completed our VFM and WGA work.



3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness.
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report before 31 December 2021. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work to date has not identified any significant weaknesses. We have set out below some of the key work we will be performing to assess the Council's arrangements across the three criteria.

Financial Sustainability

We will review the Council's arrangements for updating, agreeing and monitoring its financial plans including the assumptions within them. We will also consider the arrangements in place to monitor the identification, pace and delivery of savings.

Governance

We will consider how the Council makes appropriate decisions and does so in the correct way, including assessing arrangements for ensuring decisions are based on appropriate information, how the budget is set, the approach to risk management and other crucial policies and procedures. We will consider if there have been any changes to policies and procedures as a result of Covid-19, consider what the impact of Covid-19 has been on the capacity of Internal Audit to deliver on its plan and also review progress made in relation to Local Government Reorganisation.

We will also consider how the Council is satisfied that it has been able to achieve value for money in the procurement of Covid-related goods/services and the arrangements which the Council has put in place to address the new risks presented by the pandemic.

Improving economy, efficiency and effectiveness

We will consider what arrangements the Council has in place to understand, review, and improve the services delivered to identify savings, efficiencies, and improvements for service users. We will also conduct our own benchmarking review of the Council to understand how it is performing in comparison to its peers.

5. Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms. In this context, we disclose the following to you:

- Richard McGahon was the external audit manager for Cumbria County Council, for a short period between 1 June 2018 and 9 July 2018. Richard McGahon applied for the post of Head of Internal Audit at Cumbria County Council and was successfully appointed to that post on 10 December 2018. Given Richard McGahon has no involvement in accounts preparation, and as our team does not place direct reliance on internal audit work, the real and perceived threat to independence, objectivity and integrity is low.
- Jamie Wright was the external audit in-charge for Cumbria County Council, between December 2016 to September 2019 and the external audit manager between September 2019 to November 2019. In November 2019, Jamie applied for the post of Group Finance Manager at Cumbria County Council and was successfully appointed to the post on 19 November 2019. We have obtained confirmation from Director of Finance at Cumbria County Council that Jamie will have no direct involvement in preparation of financial statements. The role will support the Directorate of Community and Corporate Services and his role involves the co-ordination of the corporate budget monitoring returns. We are therefore satisfied that the real and perceived threat to independence, objectivity and integrity is low. There remains a perceived threat of independence, and this has been mitigated by putting in place the following safeguard. Richard Anderson and Gareth Kelly can continue to act as engagement manager and engagement lead respectively, on the grounds of seniority, with both Richard and Gareth being senior to Jamie prior to his departure from Grant Thornton. However, the remainder of the audit team needs to be staffed by a team from outside of our Carlisle office, who have not previously worked with Jamie Wright.

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

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

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teachers Pension Claim	6,500	Self-Interest Self-review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,500 in comparison to the total fee for the audit of £145,379 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. There is a perceived self-review and management threat, to be safeguarded by the fact we will carry out the work after the audit and the Council is making decisions on changes to the claim and it has informed management in place.
Harbour Authority Accounts specified procedures	1,000	Self-Interest Self-review Management	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £1,000 in comparison to the total fee for the audit of £145,379 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. There is a perceived self-review and management threat, to be safeguarded by the fact we will carry out the work after the audit and the Council is making decisions on changes to the claim and it has informed management in place.
Non-audit related			
CFO Insights Licence	12,500	Self-Interest Self-review	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £145,379 and in particular relative to Grant Thornton UK LLP's turnover overall. It is a fixed fee and there is no contingent element to it. The licence provides direct access to the information, Grant Thornton LLP are not advising on the areas to review or being part of the decision making process and therefore it does not impact on our Value for Money Conclusion work. These factors all mitigate the perceived self-interest and self review threats to an acceptable level.

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Assurance Committee .None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 2 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium – Limited Effect on financial statements	**Assets not revalued in year** Management has used the BCIS "All in TPI index" to estimate the current value of assets not revalued. Whilst it is appropriate to apply this index to the Council's specialised assets, which are valued on a depreciated replacement cost basis, it is not appropriate to apply it to non-specialised assets which are carried at existing use value.	Use a specific market value index when assessing whether there is a material difference between the current and carrying value of the Council's non-specialised assets not revalued in year. **Management response** Non specialised buildings account for £78m (14.1% of the Net Book Value of all Land Buildings and for the assets not revalued within the last three years it is £29m. The difference between using the BCIS All in TPI indsex and a market index on this small proportion of assets would be immaterial. The BCIS All in TPI index will continue to be used for the remaining £475m (85.9%) of assets valued on a DRC basis and the use of a market value index will be introduced in 2021/22 to estimate the current value of the non specialised assets not revalued.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium – Limited Effect on financial statements	**Minimum Revenue Provision (MRP)** At 31 March 2021, the Council's MRP was £7.939 million. At 31 March 2020 the MRP was £3.304 million. The MRP represents 1.42% of the Council's overall Capital Financing Requirement. This has increased from 0.60% at 31 March 2020. This is a measure of the pace at which charges to revenue (GF) are being made to finance capital expenditure that has not previously been financed . The overarching requirement is for authorities to determine a "prudent" provision, rather than to follow a particular basis of calculation .If MRP is too low, the burden of financing capital assets will fall on future generations of tax payers.	Review the Council's Minimum Revenue Provision policy to ensure the provision continues to be prudent and is sufficient to finance capital expenditure that has not previously been financed through the application of capital receipts, capital grants or direct revenue charges. **Management response** The Council's MRP policy was revised in 2016 and January 2018, on both occasions the revision to the policy was considered by Audit & Assurance Committee and approved by full Council. The MRP policy is reviewed on an annual basis and approved by full Council as part of the budget setting process. The change to the MRP policy for supported and pre 2008 borrowing from 4% reducing balance to 2% straight line results in a MRP charge more aligned with the period over which the underlying assets provide benefit. This does not affect the total amount of MRP the Council will pay in the longer term but results in a prudent re-profiling of the charge. In effect the Council is fixing the period over which the MRP charge will be made linked to the life of the assets the borrowing is paying for; similar to having a fixed mortgage period. This reduces the CFR over a fixed life of 50 years (rather than 400+ year life of the reducing balance policy) and therefore spreads the cost more evenly amongst the taxpayers that will benefit from the capital expenditure. The 2017/18 revision updated the policy for supported and pre 2008 borrowing between 2009 and 2016 and MRP would be changed from 4% reducing balance to 2% straight line. If the Council had adopted the 2% straight line approach the total it would have paid off in that period (in accounting terms) would have been £57m instead of the £93m. This therefore gives an "over provision" of £36.8m. In order to transfer the full debt repayment from 31st March 2009 to a 2% straight line basis no further MRP payment would be required for the four financial years 2017/18 to 2020/21. This allows for re-scheduling of that over provision. This £36.8m re-scheduling is profiled as follows: 2017/18 £10m 2018/19 £10m 2019/20 £10m 2020/21 £6.8m This does not affect the total amount of MRP the Council will pay in the long term but results in a prudent re-profiling of the annual charge. This is a more prudent approach and provides consistency in the treatment of MRP from 2008/9 onwards. It ensures that the historic debt is paid off (in Accountancy terms) over a fixed 50 year period. This is reflected in the Accounting Policy no iv. (Charges to Revenue for Non-Current Assets) in the Annual Statement of Accounts. For prudential borrowing from 2008/09 onwards the MRP is based on the asset life which is set out in the depreciation policy (Accounting policy xi Property, Plant and Equipment – Depreciation), for operational land and buildings this up to 60 years. The guidance does allow for asset lives to be more than 50 years if it is supported by an opinion from an appropriately qualified professional advisor that an asset will deliver service functionality for more than 50 years. If the re-profiling of the overprovision is set aside, the annual MRP charge as a percentage of the Capital Financing Requirement for 2019/20 is 2.4% rather than 0.6%, and for 2020/21 is 2.65% rather than 1.42%. The Council has commissioned a review of the MRP policy in 2021/22 and the outcome will be included in 2022/23.

B. Follow up of prior year recommendations

We identified the following issues in our 2019/20 audit of Cumbria County financial statements, which resulted in 2 recommendations being reported in our Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Valuation of Land and Buildings** i. The Council's valuation of land and buildings is not supported by a formal valuation report. Whilst we are satisfied that the valuation process is in line with the mandatory requirements from the RICS and CIPFA, it would be prudent to request a formal valuation report from the valuer to cover the 'high level' process, which is referenced to within the terms of engagement as a requirement. ii. A model is used by the Council's valuation team to arrive at depreciated replacement cost valuations. The model is reliant on key inputs, relating to build costs, build cost indices and obsolescence being kept under regular review and updated as necessary. We recommend that, the Council integrate the review of this model into their closedown procedures to ensure that it has been updated correctly. *Recommendation* Request a formal valuation report from the valuer to support the year-end valuation of land and buildings. Integrate a review of the depreciated replacement costs valuation model into closedown procedures to ensure that it is updated on a consistent and accurate basis.	For 2020/21 onwards a formal annual valuation report will be requested from the valuer. Group Finance Manager – Corporate Accounting to issue formal request to Estates & Investment Manager on 1st April each year. Confirmation of the annual update of the DRC valuation model will be documented as part of future closedown procedures. The Valuation team has reviewed the DRC valuation model in use for 2020/21 to ensure that the underlying assumptions have been updated. Estates and Investment Manager will provide a working paper documenting and evidencing the review of the DRC valuation model and associated outcomes to the Group Finance Manager – Corporate Accounting by 23rd April.
✓	**Financial Sustainability** The forecast outturn on the Council's 2020/21 budget and updating of the MTFP (for 2021-2026) include significant assumptions and uncertainties relating to the impact of Covid 19 and Brexit. Changes to key assumptions on future saving plans could have a material impact on the Council's medium term financial sustainability. The Council has identified proposals to assist with closing the £51.192 million Budget gap reflected in the MTFP for the period 2021/22 to 2025/26. Savings to be found over years 2 to 5 of the MTFP currently total £41.192m. *Recommendation* Carry out a detailed sensitivity analysis around the key uncertainties and assumptions included in the Budget outturn 2020/21 and revisions to the MTFP to assist agile financial management to secure the Council's medium term financial sustainability, in the light of the uncertain context for Local Government. Challenge the development of proposals for closing and identifying the budget gap in the MTFP, to ensure they are both realistic and deliverable.	The Council continues to robustly review its budget forecast and planning assumptions. The unprecedented and uncertain context for Local Government requires that this rigour is maintained, but also presents challenges in determining the extent of the budget challenge the medium term. The continuing impacts of COVID-19 both impact on the demand for services (expenditure) and sources of finance (income). Alongside this the Council continues to support sector bodies e.g. Local Government Association, County Council's Network, Rural Services Network etc in lobbying government for a fair allocation of resources and clarity of the funding framework for Local Government. Financial sustainability is essential to enable the Council to deliver key services and respond to the continuing impacts of the COVID-19 pandemic whilst leading and facilitating recovery of the county, working with partners, communities and businesses.

Assessment

✓ Action completed

X Not yet addressed

C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Pension Assets The estimate of the Council's share of assets held by the Cumbria Local Government Pension Scheme was based on an estimated valuation of the pension scheme at 31 March 2021. The actual value is £19.8 million higher. The Council's share of this increase in value was £11.5 million. The Movement in Reserves Statement, Note 4 Expenditure and Funding Analysis, Note 9 Adjustments between Accounting basis and funding basis under regulations, Note 32 Unusable Reserves. Note 34 Defined Benefit Pension Scheme and the Group Accounts have been updated to reflect this change.	(11,499) Remeasurement of net defined benefit pension liability	(11,499) Unusable reserves 11,499 Net pension liability	11,499
Overall impact	**11,499**	**Nil**	**11,499**

Misclassification and disclosure changes

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

Area	Detail	Adjusted?
Narrative Report	Paragraph 8.4 has been updated to only list capital expenditure. The paragraph in the draft accounts referred to some non-capital items. Paragraph 9.5 has been updated to reflect that the accounts have been prepared on a going concern basis because the services of the Council will continue to be delivered by the public sector going forward. Accounting policy ii. "Accounting Concepts" has also been updated to reflect this.	✓
Accounting Policies	The references to "fair value" in accounting policy xi Property Plant and Equipment and Note 21 - Property, Plant and Equipment has been changed to "current value" to reflect the correct valuation basis for operational assets. The reference to the Council undertaking rebuilding of a School on behalf of an academy has been removed from accounting policy xi Property Plant and Equipment as the Council no longer does this. Accounting policy xviii Reserves has been updated to clearly reference the Statutory General Fund. Accounting policies xix Interest in Companies and Other Entities and xx. Joint Arrangements have been updated to reflect the correct definition of control and Joint Venture.	✓

C. Audit Adjustments

Area	Detail	Adjusted?
Movement in Reserves Statement	References in the Movement in Reserves Statement and associated notes have been updated to be clear which balance represents the Statutory General Fund.	✓
Note 2 - Critical Judgements in Applying Accounting Policies	Reference to Group Accounts not being required for NW Fire control has been removed. It is a joint operation, so would not need to be included in the group accounts. Note 38 Related Parties has also been updated to reflect this. The note has been updated to give details about the specific judgements made by the council as opposed to just describing the application of accounting policies. The disclosure in relation academies has been moved to accounting policies as this is not a judgement. Further narrative added for PPE, Grants and Leases to reflect key judgements made.	✓
Note 3 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty	Disclosures in relation to Depreciation and Provisions have been removed as neither is a source of material estimation uncertainty. The disclosure relating to Fair Value Measurement has been updated to refer to the carrying value and include a sensitivity analysis.	✓
Note 4 Expenditure and Funding Analysis	Columns were added to the Expenditure and Funding Analysis to show Net Expenditure reported to Members and adjustment for DSG Reserve transfer to Unusable Reserves.	✓
Note 4.1 - Note to the Expenditure and Funding Analysis	Further disclosure was added to the note to explain that Other Statutory Adjustments represents the minimum revenue provision, interest payable and receivable that are reported as part of service net expenditure during the year but for statutory accounting purposes are part of Financing and Investment Income and Expenditure.	✓
Note 4.2 - Segmental Analysis of Income and Expenditure	A column for Interest Expense of £30.337 million was added to the note as this is a material element of expenditure.	✓
Note 9 - Adjustments between Accounting Basis and Funding Basis under Regulations	The line 'Council tax and NDR (transfers to or from the Collection Fund)' has been updated to read Collection Fund Adjustment Account rather than Collection Fund.	✓
Note 11 - Pooled Budgets	Note updated to confirm that the partners each account for their own share of the income and expenditure	✓
Note 13 - Officers' Remuneration	The note has been updated to show that there was 1 payment in the £130,001 to £135,000 band in the prior year, this was shown as £120,001 to £125,000 in the draft accounts.	✓

C. Audit Adjustments

Area	Detail	Adjusted?
Note 17 - Grant Income	Capital Grants and Contributions (£67.655 million) has been disaggregated in the final version of the accounts to show the individual grants that it is made up of.	✓
Note 24 - Financial Instruments	Reference to Financial assets held at Fair value through other comprehensive income has been changed to measured at cost as this relates to the Council's £3.183 million holding in Cumbria County Holdings Ltd, which is held at cost. Prepayments have been removed from Financial Instruments as these are not Financial Assets. In the draft accounts the Council measured its Money Market Funds (53.502 million) at Amortised Cost. We have challenged this classification. The Councils business model is to hold these investments to collect contractual cash flows. The Council therefore classified as amortised cost. However the standard also required that they are solely payment of principal and interest. The Council accept that this test is not met and agreed that the correct classification is to carry at Fair Value Through Profit and Loss. Note 24 has been updated to reflect this. Note, this also impacts the prior year figure of £51.427 million. This has no impact on the amounts carried in the Balance Sheet.	✓
Note 25 - Financial Instruments - Fair Value	Financial Liabilities held at Amortised Cost have been disaggregated into the following categories; Public Works Loans Board, Market Loans and Other Note 25 has been updated to reflect the fair value of the PFI Liability using the PWLB new borrowing rate. In the draft accounts, the fair value valuation was incorrectly based on the premature redemption rate. In the draft accounts this was shown as £204.685 million , this has been updated to £189.495 million in the final accounts, which is the fair value based on the new borrowing rate. This also impacts the prior year figure which has been updated from £224.446 million to £189.821 million. This has no impact on the amounts carried in the Balance Sheet.	✓
Note 28 – Short Term Creditors	Other Payables (£84.167 million) has been disaggregated in the final version of the accounts to show the significant payables that it is made up of.	✓
Note 29 – Provisions	Narrative disclosures have been added to the note to explain the nature of each provision.	✓
Note 32 Unusable Reserves	Narrative disclosure has been added to the Pension Reserve note to explain the Council's accounting treatment for its lump sum early payment of £7.609 million for three years from 1st April 2020. The narrative explains why there is an imbalance between the Net Pension Liability and the Pension Reserve.	✓
Note 34 - Defined Benefit Pension Scheme	Reference to the 2016 Actuarial Valuation has been updated to the 2019 Actuarial Valuation. The breakdown of assets in Note 34.3 LGPS Pension Scheme Assets has been updated to reflect the correct split, as per the Pension Scheme accounts.	✓
Note 35 - Cash Flow from Operating Activities	The line "Any other items for which the cash effects are investing or financing cash flows" has been updated to "Capital Grants". Other receipts from investing activities in Note 36 has also been updated to "Capital Grants".	✓
Group Accounts	The Group Movement in Reserves Statement has been updated to disaggregate usable reserves and meet the requirements of Code 3.4.2.58.	✓

C. Audit Adjustments

Impact of unadjusted misstatements

Our testing of additions identified an invoice for capital works at a school carried out in December 2019 with a value £19,219. This has been incorrectly treated as an addition in 2020/21. It should have been accounted for as an addition in 2019/20. The extrapolated impact of this is that additions in 2020/21 are overstated by £1.607 million. There is no impact on the value of Property Plant and Equipment carried in the Balance Sheet

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2019/20 financial statements. These misstatements are included in the opening balances and prior comparators in the 2020/21 accounts.

Detail	Comprehensive Income and Expenditure Statement £‘000	Statement of Financial Position £' 000	Impact on total net expenditure £’000	Reason for not adjusting
Grants Our testing of Grant Income identified the Council’s Winter Pressures Grant of £2.507 million had been incorrectly credited to Taxation and non-specific Grant Income and Expenditure. The correct treatment would have been to credit this Grant to Services, in line with the conditions of the grant.	(2,507) Service Income 2,507 Taxation and non specific Grant Income	Nil	Nil	Management did not adjust on the grounds of materiality.
Land and Buildings Our audit identified that there were 41 assets carried in the balance sheet at an estimated valuation. The Council’s finance team estimated the DRC valuation for these assets at 31 March 2019 with input from the in-house valuation team. The estimated value was £74.571 million. The assets were subsequently formally valued by the in-house valuation team in September 2020 at £69.038 million This indicated that the values included in the balance sheet at 31 March 2019 were overstated by £5.532 million. This also had an immaterial impact on the depreciation charge for 2019/20 (£0.267 million), the amount charged to Other Comprehensive Income and Expenditure in 2018/19 (£5.532 million) and the closing balance at 31 March 2020. This had no impact on the Council’s usable reserves balances. Of these 41 assets, 37 were included in the 2020/21 revaluation programme and 4 are to be valued in 2021/22. The estimated difference between the estimated value and the desktop value provided by Property in September 2020 is a potential overstatement of £0.797 million. When this is included in the assets not revalued consideration the overall potential misstatement of PPE is £0.602 million which is not material. The impact on the depreciation charge for 2020/21 is a £0.013 million overstatement.		(£5,532) Property Plant and Equipment £5,532 Unusable Reserves		Management did not adjust on the grounds of materiality.

D. Fees

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

Audit fees	Proposed fee	Final fee
Cumbria County Council Audit	£145,379	£TBC
Total audit fees (excluding VAT)	£145,379	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit related		
Certification of Teachers Pension Claim	6,500	TBC
Harbour Authority Accounts specified procedures	1,000	TBC
Non- audit related		
CFO Insights Licence	12,500	£12,500
Total non-audit fees (excluding VAT)	**£20,000**	**£TBC**

The audit fee is consistent with the disclosure in Note 15, which states the external audit fee for the 2020/21 Statement of Accounts is expected to be £145,379. Fees payable in respect of other services provided by external auditors during the year includes our prior year Teaches Pension Claim fee of £6,500, as this amount was not accrued for in the 2019/20 financial statements.

E. Audit opinion

Our audit opinion is included below as an unmodified audit report

Independent auditor's report to the members of Cumbria County Council

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Cumbria County Council (the 'Authority') and its subsidiaries and joint ventures (the 'group') for the year ended 31 March 2021, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the Accounting Statements, including a summary of significant accounting policies, and include the Firefighters' Pension Fund Financial Statements comprising the Fund Account, the Net Assets Statement and Notes to the Firefighters' Pension Scheme Financial statements. The notes to the Accounting Statements include the Accounting Policies, Introduction to Group Accounts and the Notes to the Group Accounting Statements. 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2021 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority or group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's or the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

E. Audit opinion

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Annual Governance Statement, other than the financial statements, and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

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

As explained in the Statement of Responsibilities for the Statement of Accounts as set out on page 24, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs.

E. Audit opinion

In this Authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the 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 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority and the group will no longer be provided.

The Audit and Assurance Committee is Those Charged with Governance. Those Charged with Governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards) as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, Fire and Rescue Services Act 2004 and Local Government Act 1972. We also identified the following additional regulatory frameworks in respect of the firefighters pension scheme accounts, Public Service Pensions Act 2013, The Firefighters' Pension Scheme (England) Regulations 2014 and The Firefighters' Pension Scheme (England) Order 2006.
- We enquired of senior officers and the Audit and Assurance Committee, concerning the group and Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Assurance Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls, improper expenditure recognition and improper revenue recognition. We determined that the principal risks were in relation to:
  - unusual journals with specific risk characteristics and large value journals; and
  - significant accounting estimates and critical judgements made by management.

E. Audit opinion

- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
  - journal entry testing, with a focus on unusual journals with specific risk characteristics and large value journals;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of pension liability, valuation of PFI liability, valuation of land and buildings, provisions, year-end income and expenditure accruals, depreciation and fair value disclosures**;** and
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of pension liability, valuation of PFI liability, valuation of land and buildings, provisions, year-end income and expenditure accruals, depreciation and fair value disclosures.
- Assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation;
  - knowledge of the local government sector;
  - understanding of the legal and regulatory requirements specific to the Authority and group including:
    - **the provisions of the applicable legislation**
    - **guidance issued by CIPFA, LASAAC and SOLACE**
    - **the applicable statutory provisions.**
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - The Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

E. Audit opinion

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities for the review of the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of ‘proper arrangements’. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor’s Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Cumbria County Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor’s Annual Report; and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

Use of our report

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

Gareth Kelly, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

Glasgow

Xx September 2021

F. Audit letter in respect of delayed VFM work

Chair of Audit and Assurance Committee
Hilary Carrick
Sent by email

20 September 2021

Dear Hilary

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 30 December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Gareth Kelly

Director