

The Audit Findings for Cumbria County Council

Year ended 31 March 2019

24 July 2019

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



Contents



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Section	Page
1. Headlines	3
2. Financial statements	4
3. Value for money	18
4. Independence and ethics	22
Appendices	
A. Action plan	24
B. Follow up of prior year recommendations	25
C. Audit adjustments	27
D. Fees	31
E. Audit Opinion	32

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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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 2019 for those charged with governance.

Financial Statements	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>We are also required to report whether other information published together with the audited financial statements, including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on site during June/July. Our findings are set out in this report. We have identified 4 adjustments to the financial statements that have resulted in a £23.3m debit adjustment to the Council's Comprehensive Income and Expenditure Statement. 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.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion in Appendix E or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> - finalisation of manager and director detailed reviews - completion of our work on journals and pensions - receipt and review of assurance letter from the pension fund auditor - review of final audited accounts for Cumbria County Holdings Limited - receipt of management representation letter - review of the final set of financial statements - updating our post balance sheet events review, to the date of signing the opinion. <p>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 anticipated audit report opinion will be unmodified.</p>
Value for Money arrangements	<p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>	<p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Cumbria County Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The previous except for in relation to contract management arrangements has been lifted as arrangements have been embedded during 2018/19.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E.</p>
Statutory duties	<p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> • 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. 	<p>We have not exercised any of our additional statutory powers or duties for 2018/19. We have concluded our work on the 2016/17 objection, which we did not uphold nor did we conclude it appropriate to issue a public interest report on the matter, with more detail provided on page 17. Following the release of our Statement of decision and explanation on 29th May 2019, we certified closure of the 2016/17 and 2017/18 audits on 03 July 2019.</p> <p>We have completed the majority of work under the Code and expect to be able to certify the completion of the 2018/19 audit when we give our audit opinion.</p>

Acknowledgements

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

Summary

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 have been discussed with management and will be presented to 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 Councils internal controls environment, including its IT systems and controls;

- an evaluation of the components of the group, no changes were required to our planned approach, which was communicated in our audit plan as follows;
 - Full scope – Cumbria County Council
 - Analytical review – Cumbria County Holdings Limited; and
- 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 or change our audit plan, as communicated to you on 14 March 2019 but we do draw your attention to the 3 significant findings areas that have required additional audit work as outlined on pages 7 to 9.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved as listed on page 3, we anticipate issuing an unqualified audit opinion following the Audit and Assurance Committee meeting on 26 July 2019, as detailed in Appendix E.

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 the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan.

	Group (£)	Single entity (£)
Materiality for the financial statements	16.172m	15.683m
Performance materiality	12.129m	11.762m
Trivial matters	809,000	784,000
Materiality for senior officer remuneration	-	20,000

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

The revenue cycle includes fraudulent transactions (rebutted)

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.

Auditor commentary

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; and
- 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.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride 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, judgements and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the 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 applied made by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

During our testing we identified a number of journals which have a user ID that matches a member of the Council's IT department. Management confirmed that this was generated as a result of an IT upgrade in September 2018 and is isolated to the journal upload tool. We are currently performing additional testing of journal entries, given the identification of this journal control weakness as well as review processes.

Conclusion

Our testing in this area remains outstanding.

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Commentary
<p data-bbox="68 272 493 294">3 Valuation of land and buildings</p> <p data-bbox="136 315 683 451">The Council revalues its land and buildings on a rolling five-yearly basis, with a proportion of assets revalued each year. This valuation represents a significant estimate by management in the financial statements</p> <p data-bbox="136 486 683 622">Additionally, management will need to ensure the carrying value in the Council financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.</p> <p data-bbox="136 658 683 768">We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p data-bbox="727 272 961 294">Auditor commentary</p> <p data-bbox="727 308 830 329">We have:</p> <ul data-bbox="727 351 2013 708" style="list-style-type: none"> <li data-bbox="727 351 2013 401">• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; <li data-bbox="727 415 1583 436">• evaluated the competence, capabilities and objectivity of the valuation expert; <li data-bbox="727 451 2013 501">• written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met; <li data-bbox="727 515 2013 565">• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding; <li data-bbox="727 579 2013 629">• tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and <li data-bbox="727 644 2013 708">• evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. <p data-bbox="727 722 857 743">Conclusion</p> <p data-bbox="727 758 1659 779">Our audit work has not identified any issues in respect of valuation of land and buildings.</p>

Significant findings – audit risks (continued)

Risks identified in our Audit Plan	Commentary
<p>4 Valuation of pension fund net liability</p> <p>The Council'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.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved, with £868 million in the Council's balance sheet as at 31 March 2019, and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	<p>Auditor commentary</p> <p>We have:</p> <ul style="list-style-type: none"> • 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 evaluate 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; and • undertake 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. <p>Our audit work has not identified any issues in respect of the pension fund net liability to date. We are obtaining 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. Our conclusion is yet to be finalised due to our ongoing work on the potential impact on the Council of the national McCloud appeal ruling. Our ongoing work on this issue includes:</p> <ul style="list-style-type: none"> • reviewing the processes used by management in the evaluation of the impact of the McCloud judgment and the quantification of the potential impact on the financial statements, including how management confirmed the adequacy of work carried out by actuary; • assessing and challenging the relevance and reasonableness of all significant assumptions and methods used to generate the McCloud estimate by the actuary, including understanding how the organisation's workforce profile could affect this as the matter centres around age discrimination and potential increases in pension liability; • considering whether the estimate of the potential impact is in line with our expectations; • considering managements rationale for amending the financial statements for the potential impact calculated by Mercer and checking the updated statement of accounts. <p>Conclusion</p> <p>Subject to the satisfactory completion of our outstanding procedures our audit work has not identified any issues in respect of the pension fund net liability, post the updated liability position reflected in both the LGPS and Fire fighters pension funds.</p>

Significant findings - other issues

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 control deficiencies identified during the year.

	Issue	Commentary	Auditor view
1	<p>Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Management requested an updated estimate from the actuary of the McCloud ruling. This has now been received from Mercer for LGPS and firefighters pensions. This indicates an increase in past service costs and therefore an increase to the liability of LGPS of £11m and Firefighter's of £12m. The total impact is as follows:-</p> <ul style="list-style-type: none"> • increase in past service costs £23m; and • increase in gross pension liability £23m <p>We will review the analysis performed by the actuary and consider whether the approach that has been taken to arrive at this estimate is reasonable. We will then complete the remainder of our work on pensions as detailed on page 7. We are currently performing additional work locally and nationally to assess the approach and assumptions used by the actuary in providing this updated estimate.</p> <p>We also note the fair value of the assets have increased by £7.3m. The increase is due to provisional valuations being used in the initial IAS 19 calculations and is unrelated to the Mc Cloud issue.</p>	<p>We have confirmed that the Council has adjusted its financial statements for estimated impact of the McCloud ruling increasing its gross pension liability by £23m and its assets on LGPS separate increase of £7.3m. Our audit procedures have confirmed that it is not materially misstated.</p>

Significant findings - other issues (continued)

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 control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>2 Dedicated schools grant, negative earmarked reserve</p> <p>The Council recognise a deficit reserve of £3.8m within their Earmarked Reserves balances in respect of their Dedicated Schools Grant deficit.</p> <p>From 2018/19, all local authorities with a cumulative Dedicated Schools Grant (DSG) deficit of 1% or more at the end of the financial year must submit a recovery plan to the Education and Skills Funding Agency, showing how they will bring the deficit into balance in a three year time frame.</p> <p>A joint Department for Education and CIPFA statement released in June 2019 confirms that both parties are committed to working with other stakeholders to clarify the legal basis for, and accounting treatment of, DSG deficits in time for the 2020/21 budget round and 2019/20 accounts closure. The Joint Statement also confirms that the CIPFA Local Authority Accounting Panel (LAAP) considered the issue for 2018/19 and noted concerns regarding the presentation of an earmarked deficit DSG reserve, particularly given that there is not a clearly identified legislative basis for the ring-fencing of DSG deficits.</p>	<p>We discussed the Council's current accounting treatment and the Joint Statement with management. We concluded that the Council's Usable Reserves are properly stated and that as such a user of the financial statements will be able to take an informed view of the Council's overall level of balances and reserves based on the information within the statements.</p> <p>We will discuss the accounting treatment with management in respect of future years once CIPFA confirm their expected treatment or any further guidance is issued. We also requested that management enhance the disclosure of the accounting treatment within their draft financial statements.</p>	<p>Management has confirmed that they will consider the presentation and disclosure of dedicated schools grant again next year. Disclosures in the 2019/20 financial statements will reflect updated guidance in issue and applicable to the Council at that date.</p>

Significant findings - other issues (continued)

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 control deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>3 IT General Controls (ITGC)</p> <p>When assessing the IT general control environment we make inquiries of the Council to allow us to identify the key controls in operation. An example of a key ITGC control is the use of unique user ID's and passwords to set and restrict access rights to IT systems to authorised users. During our planning work we did not identify any issues with the IT general controls from our discussions with key Council employees.</p> <p>During our testing of journals we became aware of a control issue that impacts our initial assessment of the IT general controls and is reported in Appendix A. We understand that the issue is isolated to one specific area following an upgrade to e5 in September 2018.</p> <p>Following the update authorised users who have access to the journal upload tool via their individual computers are able to "log in" to journal upload and post a journal without entering either their own user id or a password. Further more there is no requirement to be logged into e5 meaning it is not possible to verify the originating poster using an IT control.</p>	<p>We are currently undertaking additional testing to confirm that the issue was isolated to the journal upload tool.</p> <p>User of the journal upload tool should be reminded of the requirement to enter their unique user ID details. If any unusual user ID details are identified during the journal review process it should be clearly documented that the reviewer has challenged the preparer of the journal and the results of this challenge.</p> <p>We understand that a patch has now been developed, which will require the user of the journal upload to log in using their unique user name and password. Future upgrades should be fully tested prior to being implemented to ensure the adequacy of IT general controls. The patch has been in development since the issue was identified in September 2018 and is now ready for rollout in the week commencing 29th July.</p>	<p>We consider this to be a key weakness in the operation of the IT general controls of the Council. See Appendix A for our recommendations on journal IT related controls.</p> <p>We have not placed reliance on IT General Controls during the 2018/19 audit and are currently undertaking additional testing. We will confirm the results of this testing once it has been concluded.</p>

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Other - £484.3m	<p>Other land and buildings comprises £466.6m 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 (£17.6m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engages internal valuers to complete the valuation of properties as at 31/03/2019 on a five yearly cyclical basis. 7% of total assets were revalued during 2018/19. The valuation of properties valued by the valuer has resulted in a net decrease of £29.2m.</p> <p>Management has considered the year-end value of non-valued properties through applying movement in asset classes to other assets in that class to confirm to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the value of the properties. The total year end valuation of Other land and buildings was £484.3m, a net increase of £5.3m from 2017/18 (£479m).</p>	<p>See the significant risk on page 6 where audit procedures undertaken have been detailed including our challenges on key assumptions.</p>	

Assessment

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

Significant findings – key judgements and estimates (Continued)

Summary of management's policy	Audit Comments	Assessment																																
<p>Net pension liability – £868m</p> <p>The Council's total net pension liability at 31 March 2019 is £868m (PY £739m) comprising the Cumbria Local Government Pension Scheme (LGPS) £560m, Firefighters Pension Schemes £275m and Teachers Pension Scheme £33m Local Government defined benefit pension scheme obligations. The Council uses Mercer to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £67m net actuarial loss during 2018/19.</p>	<p>In understanding how management have calculated the estimate of the net pension liability we have:</p> <ul style="list-style-type: none"> assessed the use of a management's expert actuary (Mercer) assessed the actuary's roll forward approach taken used PwC as an auditors expert to assess actuary and assumptions made by the actuary (see the table below) 																																	
<table border="1"> <thead> <tr> <th data-bbox="727 422 1187 551" rowspan="2">Assumption</th> <th colspan="2" data-bbox="1187 422 1570 479">Actuary Value</th> <th data-bbox="1570 422 1742 479" rowspan="2">PwC range</th> <th data-bbox="1742 422 1943 551" rowspan="2">PwC assessment of assumptions</th> </tr> <tr> <th data-bbox="1187 479 1373 551">LGPS</th> <th data-bbox="1373 479 1570 551">Fire</th> </tr> </thead> <tbody> <tr> <td data-bbox="727 551 1187 601">Discount rate</td> <td data-bbox="1187 551 1373 601">2.4%</td> <td data-bbox="1373 551 1570 601">2.4%</td> <td data-bbox="1570 551 1742 601">2.4%-2.5%</td> <td data-bbox="1742 551 1943 601"></td> </tr> <tr> <td data-bbox="727 601 1187 675">Pension increase rate</td> <td data-bbox="1187 601 1373 675">2.3%</td> <td data-bbox="1373 601 1570 675">2.3%</td> <td data-bbox="1570 601 1742 675">2.2%-2.3%</td> <td data-bbox="1742 601 1943 675"></td> </tr> <tr> <td data-bbox="727 675 1187 749">Salary growth</td> <td data-bbox="1187 675 1373 749">3.7%</td> <td data-bbox="1373 675 1570 749">3.7%</td> <td data-bbox="1570 675 1742 749">3.1%-4.35%</td> <td data-bbox="1742 675 1943 749"></td> </tr> <tr> <td data-bbox="727 749 1187 829">Life expectancy – Males currently aged 45 / 65</td> <td data-bbox="1187 749 1373 829">25.6/ 23.3 years</td> <td data-bbox="1373 749 1570 829">28.3/ 26.4 years</td> <td data-bbox="1570 749 1742 829">Note 1</td> <td data-bbox="1742 749 1943 829"></td> </tr> <tr> <td data-bbox="727 829 1187 903">Life expectancy – Females currently aged 45 / 65</td> <td data-bbox="1187 829 1373 903">28.6/ 25.9 years</td> <td data-bbox="1373 829 1570 903">30.3/ 28.4 years</td> <td data-bbox="1570 829 1742 903">Note 1</td> <td data-bbox="1742 829 1943 903"></td> </tr> </tbody> </table>	Assumption	Actuary Value		PwC range	PwC assessment of assumptions	LGPS	Fire	Discount rate	2.4%	2.4%	2.4%-2.5%		Pension increase rate	2.3%	2.3%	2.2%-2.3%		Salary growth	3.7%	3.7%	3.1%-4.35%		Life expectancy – Males currently aged 45 / 65	25.6/ 23.3 years	28.3/ 26.4 years	Note 1		Life expectancy – Females currently aged 45 / 65	28.6/ 25.9 years	30.3/ 28.4 years	Note 1		<ul style="list-style-type: none"> assessed the completeness and accuracy of the underlying information used to determine the estimate impact of any changes to valuation method undertook a reasonableness test of the Council's share of LPS pension assets. assessed the reasonableness of the movement in the estimate assessed the adequacy of disclosure of estimate in the financial statements. <p>Note 1 – The methodology used to calculate life expectancy was reasonable.</p>	
Assumption		Actuary Value				PwC range	PwC assessment of assumptions																											
	LGPS	Fire																																
Discount rate	2.4%	2.4%	2.4%-2.5%																															
Pension increase rate	2.3%	2.3%	2.2%-2.3%																															
Salary growth	3.7%	3.7%	3.1%-4.35%																															
Life expectancy – Males currently aged 45 / 65	25.6/ 23.3 years	28.3/ 26.4 years	Note 1																															
Life expectancy – Females currently aged 45 / 65	28.6/ 25.9 years	30.3/ 28.4 years	Note 1																															
<p>As previously noted, this final assessment is dependent on the outcome of our audit work on the impact of the McCloud ruling, which is ongoing at this point.</p>																																		

Assessment

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

Significant findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Cumbria County Holdings Limited	Desktop review performed by Group audit team.	<ul style="list-style-type: none"> We performed a desktop review including analytical procedures and gained an understanding of the consolidation process. We are awaiting a copy of the final signed audited accounts to confirm the final position and that the audit report issued by KPMG is unqualified. 	<ul style="list-style-type: none"> Our audit work did not identify any issues in respect of the analytical procedures performed on the group consolidation.

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary
1 Significant events or transactions that occurred during the year	<ul style="list-style-type: none"> No issues to report.
2 Business conditions affecting the group or Council, and business plans and strategies that may affect the risks of material misstatement	<ul style="list-style-type: none"> No issues to report other than the matters raised in connection to the Mc Cloud ruling referred to earlier in this report, which the Council has now as a result amended its accounts.
3 Concerns about management's consultations with other accountants on accounting or auditing matters	<ul style="list-style-type: none"> We are not aware of any consultations with other accountants.
4 Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	<ul style="list-style-type: none"> No issues to report.
5 Other matters that are significant to the oversight of the financial reporting process	<ul style="list-style-type: none"> No issues to report.

Significant findings - Going concern

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).

Going concern commentary

Management's assessment process

- The Council has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exist.

Auditor commentary

- Cashflow projections and the medium term financial plan demonstrate sufficient liquidity to meet liabilities as they fall due for at least the next 12 months.
- The Council's assessment of going concern was communicated to us in the Audit Committee Chair's letter on 7 June 2019.
- The Council's use of the going the concern basis of accounting is appropriate.

Work performed

We reviewed management's assessment by:

- ensuring the assessment concurred with our knowledge of the Council
- reviewing the Medium Term Financial Strategy for 2019 to 2023 which was approved by Council on 14th February 2019.
- reviewing the cash flow

Auditor commentary

- No material uncertainty identified.
- Explicit disclosure of going concern as the basis of the preparation of the accounts is made in the Narrative Report.

Concluding comments

- The Council's use of going concern basis of accounting is appropriate.

Auditor commentary

- Our opinion is unmodified in respect of the going concern conclusion.

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	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.
② Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	The Council has not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	A letter of representation has been requested from the Council.
⑤ Confirmation requests from third parties	We obtained permission from management to send confirmation requests to the Council's bankers and those with whom it placed investments or has given it loans. This permission was granted and requests were sent, with positive confirmations received back from all organisations.
⑥ Disclosures	<p>Our review found no material omissions in the financial statements however;</p> <ul style="list-style-type: none"> • Adjustments were made for presentational errors these were amended, as outlined in Appendix C. • Narrative within existing disclosures was strengthened for a number of key elements as listed on Appendix C page 28 and 29. • The comparative figures in the consolidated group accounts CIES have been amended for immaterial amounts and do not include the additional disclosures required under IAS 1 for prior year adjustment. We have reminded management that prior year adjustments are only required for material items and should include the disclosures required by IAS 1.
⑦ Audit evidence and explanations/significant difficulties	All information and explanations requested from management has been provided.

Other responsibilities under the Code

Issue	Commentary
<p>1 Other information</p>	<p>We are required to give an opinion on whether the other information published together with the audited financial statements, including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. The Council has updated its Narrative Report for operating model, culture and values, workforce and major capital scheme opportunities. We plan to issue an unmodified opinion in this respect as outlined in Appendix E.</p>
<p>2 Matters on which we report by exception</p>	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
<p>3 Specified procedures for Whole of Government Accounts</p>	<p>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.</p> <p>As the Council exceeds the specified group reporting threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>We have no issues to report from this work.</p>
<p>4 Objection relating to the 2016/17 audit and certification of the closure of the audits</p>	<p>We have concluded our work on the 2016/17 objection, which we did not uphold nor did we conclude it appropriate to issue a public interest report on the matter. The objection was in respect of alleged deficiencies in the arrangements of Cumbria County Council to secure value for money in 2016/17 on the Kendal Infrastructure Plan ('KIP') related capital projects, and in the Council's and its S151 Officer's oversight of the value for money provided by the Cumbria Local Enterprise Partnership. The Council has provided us with sufficient evidence to enable us to conclude that adequate value for money arrangements are in place on the KIP and on the related oversight of CLEP. However, we did identify areas for improvement and the Council has subsequently provided evidence of appropriate actions taken to address the 5 recommendations raised.</p> <p>Following the release of our Statement of decision and explanation to the objector on 29th May 2019, we certified closure of the 2016/17 and 2017/18 audits on 03 July 2019.</p> <p>We intend to certify the closure of the 2018/19 audit of Cumbria County Council in the audit opinion, as detailed in Appendix E.</p>

Value for Money

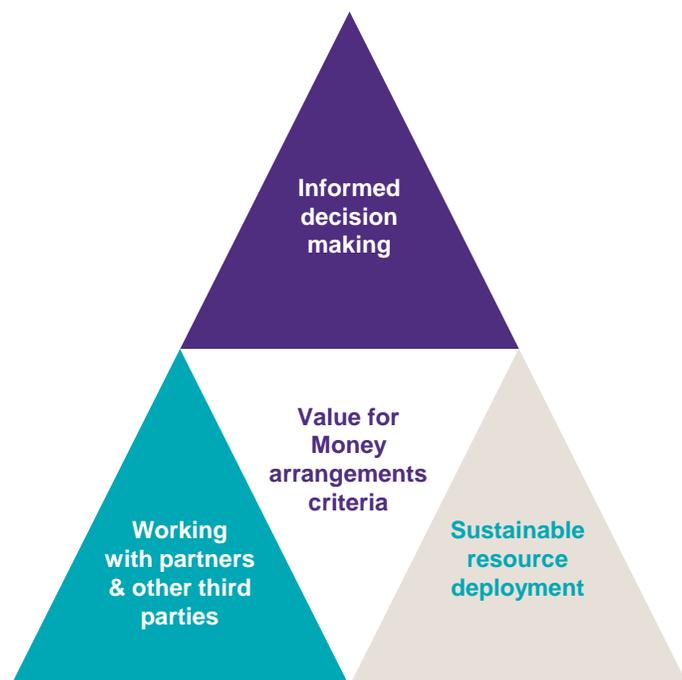
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in March 2019 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 14 March 2019.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 21.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings	Conclusion
<p>1 Medium term financial plan (MTFP) including service transformation</p>	<p>The Council has a good record in achieving savings and when setting its previous seven annual budgets the Council has agreed £249 million of savings between 1 April 2011 and 31 March 2019. The Council delivered £35.6 million of savings against a plan of £38.8 million for 2018-19, with the £3.2 million shortfall occurring as a result of funding higher children's care costs. The Council plans to bridge this gap in 2019/20 and beyond. The Council continues to face significant financial challenges. The MTFP was updated in February 2019, and this shows that savings of £22.7 million have been identified for 2019/20. The savings still to be found to balance the budget over the three year period of the MTFP up to 2021/22 is £37.8m in total.</p> <p>The Council has a General Fund balance as at 31 March 2019 of £15.056 million (2018: £10.472 million) and useable earmarked reserves of £53.813 million (2018: £65.457 million) giving total usable reserves of £68.869 million. Over the last 3 years the Council's GF and earmarked reserves have decreased by 6%, and now represent 17.7% of net expenditure. The school earmarked reserves have increased in year, from £1.685 million to £2.356 million. Overall, the DSG related reserves have negative balances of £1.485 million due to the ring fenced dedicated schools grant overspend of £3.553 million. This largely relates to the high needs services allocation. The Council has, along with many other Councils, provided DfE with a deficit forecast plan up to 2021/22. The Council has invited the DfE to further dialogue on this issue, to explore the causes of the pressures on the High Needs Block, also experienced elsewhere in the country and the potential long term solutions for a rural county.</p> <p>The capital outturn for 2018/19 was £132.7 million against £145.5 million revised budget. All of the £13 million net slippage on the capital programme has been carried forward and re-profiled over future years. The Council's involvement in wider economic regeneration schemes including the Borderlands Initiative and the St Cuthbert's Garden Village further highlights the requirement to be innovative in its approach to spending and generating income in the medium to long term.</p> <p>The Council has strong reporting and monitoring arrangements in place. Its medium term financial planning, budgeting and identification of saving plans are agreed at a corporate level, by senior officers and Members. Additional pressures and progress against efficiency savings requirements are reported throughout the year and actions agreed to close the budget gap as required. The MTFP (2019-2022) maintains the General Fund Balance at £15 million throughout the period of the MTFP. The General Fund Balance was increased by £5 million to £15 million in setting the 2019/20 Budget.</p> <p>Whilst the Council has a good record in achieving savings these savings are now becoming increasingly difficult to identify with the Council having limited scope to generate new income streams. The Councils existing commercial group activities through the Cumbria County Holdings Limited Group are showing signs of weakening underlying performance. This has resulted in a significant reduction in the dividend received by the Council with £0.75m being received in 2018/19 compared to a dividend of £1.5m in 2017/18.</p> <p>Whilst reducing the MRP charged to the General Fund and the refinancing of the CNDR PFI does improve the reserves position, this is short-term non-recurring solution to medium to long term financing challenges. Looking forward, the Council should seek to identify opportunities to reduce expenditure or generate further income through long-term focussed initiatives rather than reliance on short term one off accounting adjustments.</p>	<p>Auditor view</p> <p>Overall, the Council has effective financial planning and financial management arrangements in place. For example, the reserves position is monitored and reported formally to Cabinet on a quarterly basis. Additionally, in preparing the Annual Budget and MTFP, a full review and forecast of total reserves is undertaken.</p> <p>The Council should also continue to monitor the performance of its existing commercial activities to manage its financial risk exposure and to review opportunities for new future income generation.</p> <p>Based on the review of the arrangements in place during 2018/19 for the compilation of the MTFP including identified savings, we concluded that the overall risk was sufficiently mitigated and the Council has proper arrangements in this area. However, the Council in its regular updating of the MTFP needs to:</p> <ul style="list-style-type: none"> • identify potential recurrent savings or income generation opportunities, and not just rely on one off accounting adjustments to address the significant savings gap • closely monitor the run rate on its use of usable reserves • reflect the medium-term financial risk exposure on current and future commercial activity.

Key findings (continued)

	Significant risk	Findings	Conclusion
2	<p>Contract management and monitoring</p> <p>In September 2017 the 'lessons learned' review reviewed the events surrounding the procurement, operation and termination of the Amey contract. The report included an Action Plan, which management addressed during 2017/18 and are working towards embedding during 2018/19.</p> <p>We will review the progress made by the Council during 2018/19 to embed the Amey and Zurich Municipal contract management related action plans.</p>	<ul style="list-style-type: none"> • Following a legal contractual dispute settled in November 2016, the Authority completed a Lessons Learned review including agreed management actions in September 2017, to address a number of identified weaknesses in relation to contractual management. The Authority acknowledged it needed to improve the robustness of its overarching contract management arrangements with appropriate capacity, capability, performance monitoring and risk and escalation management of major contracts and potential related disputes and litigation. • The Council commissioned from Zurich Municipal a Contract Risk Management Review, which was issued on 27 April 2018. The review found that, "the Council has and is making significant changes to how it manages contracts, in response to risk and a desire to implement best practice in some areas." The review did highlight some areas for further improvement, in terms of up to date significant contract risk registers and assessing the embeddedness of the updated annual governance statement process and oversight of how DMTs assure themselves that risks are being managed in significant contracts. • The Council has provided evidence that appropriate actions have been taken in response to the report's recommendations. Actions taken include: <ul style="list-style-type: none"> • identification of significant contracts across all services • production of Effective Contract Management Guidance note, which has been issued to Corporate Directors • Implementation of a single electronic system across Council to capture significant contract information • Introduction of regular quarterly reporting through Directorate Management Teams and the Corporate Management Team of significant contracts to enable escalation of issues and concerns • Review of the Council's Whistleblowing Policy and development of new Speak up arrangements to support the development of openness and transparency across the Council. • The quarterly review of significant contracts undertaken by the Council, through DMTs and CMTs, indicates that there are currently no significant contract management issues or concerns. • During 2018/19 the Council has put significant work into implementing the actions from the lessons learned report. A detailed review was completed by management on the progress made in embedding both the Amey and Zurich Municipal action plans. This process included assigning a RAG rating to the Amey and Zurich action plans to assess the degree by which controls and other measures had been fully embedded during 2018/19. Internal Audit has reviewed and challenged the RAG ratings assigned to the action plan by management. We note that this also includes recommendations and advisory comments from Internal Audit to refine and improve current arrangements as part of the Council's continuous improvement journey in respect of its management of contracts. • During 2017/18 and 2018/19 the Audit and Assurance Committee has undertaken a series of senior management deep dives on the significant contract areas of waste management, CNDR PFI and care needs and continuity of care to provide direct assurance to those charged with governance, and in turn receive healthy and constructive challenge, on the progress being made to embed the new contract management arrangements across the Council. The Council has also downgraded its corporate risk on contract management down from a risk score of 15 to 10 as at 31 March 2019. 	<p>Auditor view</p> <p>We are satisfied that during 2018/19 the Council has embedded the key recommendations in the Zurich Municipal and Amey action plans during 2018/19 and have move to into the next stage where they continue to refine their contract management arrangements.</p> <p>Our assessment of the Council's progress on embedding its new contract management arrangements was subject to a national Grant Thornton moderation panel.</p> <p>Overall, therefore we anticipate lifting the former except for qualified VFM conclusion issued in 2016/17 and 2017/18, on the Council's contract management arrangements.</p>

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). In this context, we disclose the following to you:

We confirm that there is one significant matter that could appear to have an impact on our independence, objectivity and integrity, and as your auditors we are required to draw it to your attention. Richard McGahon replaced Angela Pieri as your external audit manager on 1 June 2018. On 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. In July 2018, the Engagement Lead in consultation with the then Engagement Quality Control Reviewer and our Central Ethics Team made the decision to immediately remove Richard McGahon from this audit engagement to safeguard our independence, objectivity and integrity. In this short period as manager Richard McGahon's only work on the 2017/18 audit was to carry out an interim review of the audit team's work. An additional safeguard was put in place whereby both the Engagement Lead and the Engagement Quality Control Reviewer carried out a review of all the work that Richard McGahon had reviewed in 2017/18.

The Engagement Lead sought assurance from the Central Ethics Team that given Richard McGahon had no involvement in accounts preparation, and as our team does not place direct reliance on internal audit work the remaining perceived threat to independence, objectivity and integrity was low. However, there remains a perceived threat of independence, and this has been further mitigated by putting in place safeguards, including the appointment of an Audit Manager who only joined the firm in September 2018, and had no previous relationship with Richard McGahon. We have also reported this position to Public Sector Audit Appointments Limited, who have not raised any concerns with how we are managing this threat to our independence, objectivity and integrity.

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 December 2017, which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged and ethical considerations for audit and non audit related work undertaken in 2018/19 are detailed on page 23 and in Appendix D

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 Council. The following non-audit services were identified which were charged from the beginning of the financial year to 26 July 2019, 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	4,900	Self-Interest (because this is a recurring fee) 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 £4,900 in comparison to the total fee for the audit of £88,254 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 (because this is a recurring fee) 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 £88,254 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 (because this is a recurring fee) Self-review (value for money work)	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 £88,254 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.
Contract assurance	Up to £54,175	Self-Interest Self-review	The level of this non-recurring contingent fee taken on its own is not considered a significant threat to independence as the fee for this work is limited to a cap of £54,175 in comparison to the total fee for the audit of £88,254, and in particular relative to Grant Thornton UK LLP's turnover overall. The Grant Thornton Contract assurance team are independent of the local engagement team. They are not directing 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. This review has also been subject to approval from Public Sector Audit Appointments Limited received on 20 June 2019, and it will not commence until the 2018/19 audit has been certified as complete. These factors all mitigate the perceived self-interest and self-review threats to an acceptable level. The related fees for contracts assurance will be reflected in 2019/20 financial statements.

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 Council except for Teachers Pension Claim certificate which cannot commence until we receive your approval. None of the services provided are subject to contingent fees.

Action plan

We have identified 2 of 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 2019/20 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
1	<p>Manual journal review process</p> <ul style="list-style-type: none"> During our journal testing we identified a number of journal entries that had been posted and reviewed by the same individual. Group Finance Managers (GFM) are responsible for the review of journals made into their area. Where a GFM had posted a journal, they had also reviewed them throughout 2018/19 which negates the segregation of duties control. We understand this occurred due to staffing changes in the finance department. However without a robust review process there is a risk that fraud and error could go undetected. The review process is a control which has been implemented in the absence of a pre-journal posting authorisation control. 	<ul style="list-style-type: none"> Update the current journal review process to ensure that all journal posted are reviewed. <p>Management response</p> <ul style="list-style-type: none"> The Council recognises the dependency on one individual following the delay in recruitment to the Finance Manager – Corporate Accounting role. This was unfortunate but unavoidable. However, there are already significant other management controls in place to give the assurance on the true and fair position of the Council's ledger (set out below).
2	<p>Journal upload tool</p> <ul style="list-style-type: none"> Following the e5 upgrade in September 2018, the finance team and IT became ware that it was possible for users to “log in” to journal upload and post a journal without entering either their own user id or a password. There was also no requirement to be logged into e5, which meant there was no record of the originating poster where the poster let the tool revert to the default poster which in this case was a member of the IT team or another user if the poster chose another user. The Systems team made Finance staff aware of the issue in mid September 2018, it was noted that there was a risk but it was felt that because of the other mitigating controls that are in place the risk of any misstatement of the Accounts was very low. 	<p>Recommendations</p> <ul style="list-style-type: none"> User of the journal upload tool should be reminded of the requirement to enter their unique user ID details. (If any unusual user ID details are identified during the journal review process it should be clearly documented that the reviewer has challenged the prepared of the journal and the results of this challenge). Ensure the pending IT upgrade is fully tested prior to being implemented to ensure the adequacy of IT general controls. (We acknowledge that work had been ongoing on the development of the patch during the latter part of 2018/19 and is ready for deployment, which will require user of the journal upload to log in using their unique user name and password). <p>Management response</p> <p>The Systems team, ICT and the software supplier have continued to work on addressing the user id issue since September 2018. A solution has now been developed and is in the final stages of testing. This solution will force a user to enter a log on and password before they can use the spreadsheet upload tool. This solution is due to be deployed from week commencing 29th July 2019. In relation to the mitigating controls management placed reliance on the existing controls relating to those of monthly monitoring returns via DMTs, compilation of the corporate budget monitoring reports quarterly and is subject to the scrutiny of the Director of Finance in preparation for Cabinet. The role of the Deputy S151 Officer and GFMs is to carry out monthly analytical review. The reporting was strengthened in 2018/19 by reporting the Council Plan Delivery Plan report alongside the budget monitoring report on a quarterly basis.</p>

- Controls**
- High – Significant effect on control system
 - Medium – Effect on control system
 - Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of Cumbria County Council's 2017/18 financial statements, which resulted in 3 recommendations being reported in our 2017/18 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
1	✓	<p>Statement of accounts</p> <ul style="list-style-type: none"> Through sample testing of the creditors balance we identified errors, for the second year running, in EPROC system generated creditors. Further work was performed by the Council before the accounts were issued to ensure this balance was materially correct, and further testing was undertaken by the audit team to prove that this was not a material issue. We acknowledge the extensive work to continually reconcile and review the outstanding transactions on the EPROC system. Manual goods receipting input errors are causing the issue. This issue has the potential to cause errors in the future, due to creditors being incorrectly raised. 	<ul style="list-style-type: none"> Improvements were undertaken during 2018/19 to remove/reduce this risk. This also included finance leading a multi service team that reviewed potential issues and where necessary addressed those issues and made improvements to related processes and procedures. As part of creditors testing we selected some EPROC related creditors and did not find any issues in this 2018/19 testing.
2	✓ ongoing	<p>Value for Money</p> <ul style="list-style-type: none"> The Council's useable reserves have decreased by 6% over the last 3 years, with the Amey settlement having a significant impact in 2016/17. The Council reports on its reserves position on a quarterly basis and is satisfied it has adequate reserves in the short term to meet risks the Council faces but it will have to continue to closely monitor the reserve position in the context of its medium to longer term financial sustainability. The Council has delivered significant cost savings over the past seven budgets and now needs to be more focused on cost and demand management and areas of potential income generation to support sustainable delivery in the longer term. 	<ul style="list-style-type: none"> The reserves position is monitored and reported formally to Cabinet on a quarterly basis. In preparing the Annual Budget and MTFP, a full review and forecast of total reserves is undertaken. The Council Plan (2018-2022) sets out a clear commitment to develop future budgets, which consider the opportunity to maximise income and focus on demand management and cost management of services which as a whole, along with other news ways of working aim to deliver financial sustainability within the challenging context for local government and the uncertainties about future funding. We acknowledge what the Council is doing to secure financial sustainability and this links to our ongoing commentary on VFM to closely monitor the run rate on usable reserves.

Assessment

- ✓ Action completed
- X Not yet addressed

Follow up of prior year recommendations (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3 ✓	Value for Money <ul style="list-style-type: none"> Contractual management arrangements have improved and work is ongoing to further embed these improvements across the Council. The Council is also implementing the recommendations made in the Zurich Municipal Contract Risk Management Review. 	<ul style="list-style-type: none"> Further work has been undertaken during the year and the action plans are now embedded.

Assessment

- ✓ Action completed
- X Not yet addressed

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 2019. Items 1 and 2 adjustments are post balance sheet events. The unaudited accounts published on 31st May 2019 reflected the potential impact of McCloud as contingent liabilities.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet Position £' 000	Impact on total net expenditure £'000
1 Mc Cloud Defined benefit pension scheme - McCloud impact for Cumbria Local Government Pension Scheme	10,656	(10,656)	10,656
2 Mc Cloud Defined benefit pension scheme - McCloud impact for Firefighters Pension Schemes	12,628	(12,628)	12,628
3 Actuarial outturn on investments Defined benefit pension scheme – updated fair value of plan assets	(7,341)	7,341	0
4 Non-Distributed Costs As per the Code, all income and expenditure should be allocated to the appropriate service heading in the CIES with no items left undistributed. The draft financial statements had expenditure of £5.261m and income of £3.695m (net £1.566m) classified as 'non-distributed costs', these have been amalgamated into the 'Other Corporate Items' heading in the CIES. This also impacted on the 2017/18 CIES with £4.788m expenditure moving from 'non-distributed costs' to 'Other Corporate Items'.	1,566 (1,566)	0	0
Overall impact	£15,943	(£15,943)	£23,284

Audit Adjustments

Disclosure changes

The table below provides details of disclosure changes identified during the audit, which have been made in the final set of financial statements. The Council's view is that all of these amendments are minor corrections to assist the reader of the Statement of accounts.

Adjustment type	Value (£000)	Account Balance	Impact on the financial statements	Adjusted?
1. Disclosure	N/A	Accounting Policies, ii. Accounting Concept, Accruals of Income and Expenditure	The sale of goods revenue accounting policy has not been updated for the new revenue accounting standard IFRS 15. This has been amended in the final version.	✓
2. Disclosure	N/A	Accounting Polices, x. Private Finance Initiative (PFI) and Similar Contracts	An accounting policy for the PFI refinancing gain was omitted from the financial statements presented for audit. An appropriate accounting policy has now been included in the financial statements.	✓
3. Disclosure	N/A	Various	The valuation method for investments in subsidiaries had been inconsistently applied throughout the financial statements. The financial statements have now been updated for the correct valuation method, which is cost less impairment.	✓
4. Disclosure	N/A	Note 2, Critical Judgements / Note 3 Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty	<p>It is not clear from this note what the critical judgements are, the note also includes transactions that are not material to the accounts and would therefore not be consider to be a critical judgement, such as investment properties. The Council has not updated this note but these are not impacting on our true and fair opinion of the financial statements.</p> <p>Note 3 excluded assets valuations, the estimation uncertainty of asset valuations has now been included in the financial statements.</p>	<p>Not changed but will revisit in 2019/20</p> <p>✓</p>
5. Disclosure	N/A	Note 4 – Expenditure and Funding Analysis	The comparatives in this note have been restated. The notes impacted have now been correctly titled as restated and the prior year adjustment disclosures strengthened.	✓
6. Disclosure	£688	Note 16, Dedicated Schools Grant	The prior year note had been amended for an immaterial error identified during 2018/19. The error is a reclassification within note 16.	✓

Audit Adjustments

Disclosure changes

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

Adjustment type	Value (£000)	Account Balance	Impact on the financial statements	Adjusted?
7. Disclosure	N/A	Note 27 & 28, Financial Instruments	The narrative within these notes have been strengthened to meet the requirements of IFRS 9.	✓
8. Disclosure	N/A	Group, Note 7.4	The note presented for audit does not set out the reasons why the Council and Cumbria Waste Management have adopted differing treatments for landfill restoration and aftercare costs. The Council has disclosed as a contingent liability where as Cumbria Waste Management Ltd has included a provision of £10.553m. The difference in treatment is due to the landfill sites that are the responsibility of the Council are closed sites i.e. dormant and the CWM sites are active sites that will require restoration and aftercare when they are finally closed. The narrative on para 7.4 has been updated.	✓
9. Disclosure	N/A	Group primary statements	The group primary statements have been restated. This is not a material prior year adjustment and has not been accounted for under IAS 1 i.e. there is no third balance sheet. We are satisfied with the adequacy of the disclosures provided for this non material adjustment.	N/A
10. Disclosure	N/A	Note 26, Note 31, G3, G4	The notes presented for audit had been prepared using the old analysis required under the Code. This has now been amended to split trade and other debtors.	✓
11. Disclosure	£0.606m	Note 28, Expected credit losses	The amount of credit losses was added to the note narrative.	✓
12. Disclosure	N/A	Narrative Statement	The Council has set its own materiality level which is equal to the materiality set by Grant Thornton for the audit of the 2019 financial statements. We would expect the Council to set its materiality at a level that is lower than the level set by us for our audit of the financial statements.	N/A
13. Disclosure	£12.5k	Note 15, External Audit Costs	The note presented for audit omitted a non audit service provided by Grant Thornton during the year. £12,500 has now been added to fees respect of other services line to correctly include all non audit services within this disclosure.	✓

Audit Adjustments

Impact of unadjusted misstatements

There is one unadjusted misstatement in relation to the 2018/19 audit, which is outlined below and it is purely a technical accounting matter and has no impact on the total net expenditure position .

Detail	CIES £'000	Balance Sheet £' 000	Management response to not amending
1 Accountable Body Funds The Council is acting as an agent in its Accountable Body relationships, primarily with the Copeland Community Fund and the Growing Places Fund. The Council holds cash balances in ring fenced bank accounts, which have not been presented within the year-end balance sheet (either in cash or elsewhere in the balance sheet). In complying with accounting standards, the correct treatment is to present the year-end balance restricted cash as both a debtor and creditor balance. This has increased both the short-term debtor and creditor balances in the balance sheet, but has not amended the net balance sheet position. This is merely a technical accounting adjustment.	0	14,086 (14,086)	There is a difference of opinion in the accounting treatment of the Accountable Bodies cash balances. This is a non-material amount and is only a matter of classification on the Balance Sheet. We would like to take the time to agree an approach with Grant Thornton for the Accounts for 2019/20 onwards.

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 2017/18 financial statements.

Detail	Comprehensive Income and Expenditure Statement (£'000)	Statement of Financial Position (£'000)	Action taken in 2017/18 Accounts
1 A manual calculation error was identified in 2016/17, in the valuation of one school within the Council's land and buildings balance. The error has led to the Property, Plant and Equipment balance and the Capital Adjustment Account to be overstated by £900,000. Therefore, the total assets and unusable reserves held by the Council are overstated. The decision to not adjust for this issue does not impact upon our audit opinion.	0	(900) 900	The school was subject to a formal revaluation and the accounts have been updated. Implemented no further action required.
Overall Impact	£0	£0	

Fees

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

Audit Fees

	Proposed fee	Final fee
Council Audit	88,254	90,754
Total audit fees (excluding VAT)	£88,254	£90,754

Additional audit fee of £2,500 has been incurred as a result of the additional audit work required on dealing with the Mc Cloud ruling and the additional testing on journals.

Audit related and non-Audit Fees

Fees for other services	Fees £
Audit related services:	
• Certification of Teachers Pension Claim	4,900
• Harbour Authority Accounts Specified Procedures	1,000
Non-audit services	
• CFO Insights Licence	12,500
	18,400

Note the audit fee for the 2016/17 audit objection is £25,500, which has not as yet been billed. The final non-audit fee on contract assurance will not be know until later in the year, but is capped at £54,175 and will be billed in 2019/20.

Audit opinion

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

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Cumbria County Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 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 financial statements, including a summary of significant accounting policies, and include the Firefighters' Pension Scheme Financial Statements comprising the Fund Account, the Net Assets Statement and Notes to the Firefighters' Pension Scheme Financial Statements. The notes to the financial statements include the Introduction to the Accounting Statements, the Accounting Policies, Notes to the Accounting Statements, 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 2018/19.

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 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; 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. 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. Guidance: Ensure that the order of the primary statements in the report is the same as that in the financial statements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director of Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 Authority and group financial statements 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.

Audit opinion

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 of the group and Authority 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 this 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 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 the 'Delivering Good Governance in Local Government: Framework (2016)' 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 matter 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 gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts and the Annual Governance Statement 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 more fully in the Statement of Responsibilities for the statement of accounts set out on pages 26 to 27, 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. 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 2018/19, 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.

Audit opinion

In preparing the financial statements, the Director of Finance is responsible for assessing the group's and the Authority'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 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.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Audit opinion

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of Cumbria County Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

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.

[Signature to be added]

Gareth Kelly, Key Audit Partner

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

Glasgow

Date to be added



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