The Annual Audit Letter for Cumbria County Council

Year ended 31 March 2020

March 2021

Contents

Your key Grant Thornton team members are:

Gareth Kelly
Key Audit Partner
T: 0141 223 0891 or 07780 456154
E: gareth.kelly@uk.gt.com

Richard Anderson
Engagement Manager
T: 0141 223 0753 or 07920 021291
E: richard.j.anderson@uk.gt.om

Natasha Ayre
Assistant Manager
T: 0141 223 0778
E: Natasha.L.Ayre@uk.gt.com

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Cumbria County Council (the Council) and its subsidiaries (the Group) and Cumbria Local Government Pension Scheme (the Scheme) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council, the Group, the Scheme and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Assurance Committee as those charged with governance in our Audit Findings Report on 27 November 2020.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council, Scheme and Group's financial statements, as outlined in section two; and
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion), as outlined in section three.

In our audit of the Council, Scheme and Group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Group's financial statements to be £12,920,000, which is 1.3% of the Group's prior year gross cost of services expenditure. We determined materiality for the audit of the Council's financial statements to be £12,396,000, which is 1.3% of the Council's prior year gross cost of services expenditure. We determined materiality for the audit of the Scheme's financial statements to be £25,740,000, which is 1% of the Scheme's net assets as at 31 March 2020.
Financial Statements opinion	We gave an unqualified opinion on the Council, Scheme and Group's financial statements on 30 November 2020. We included an emphasis of matter paragraph in our Council and Group report in respect of the uncertainty over valuations of the Council's land and buildings and the Council's share of the Scheme's direct and indirect property assets, given the Coronavirus pandemic. We also included an emphasis of matter paragraph in our Scheme audit report, highlighting direct and indirect property valuation material uncertainties again linked to the Coronavirus pandemic. This does not affect our opinion that the statements of the Council, Scheme and Group give a true and fair view of their financial position and income and expenditure for the year.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters, which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 30 November 2020.
Certificate	We were unable to certify that we had completed the audit of the financial statements of Cumbria County Council on 30 November 2020, as a result of MHCLG system issues outwith the Council's and our immediate control resulting in delays around the completion of our Whole of Government Accounts work. The issue was resolved and we certified that we had completed the audit of the financial statements of Cumbria County Council in accordance with the requirements of the Code of Audit Practice on 7 January 2021.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council. As well as leading the County's response to the pandemic, the Council has had the additional challenges of reopening services under new government guidelines. Council staff have had to adapt to working from home and accessing key systems remotely.

Restrictions for non-essential travel meant both Council and audit teams had to adapt to new remote access working arrangements. This included the use of video calling and screensharing for the verification of completeness and accuracy of information produced by the entity, and information sharing through our cloud-based software. The accounts were provided to us on 30 July 2020 and working papers have been provided throughout the audit.

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times. These complex set of financial statements have been produced to a very high standard and the finance team have produced good working papers and have been responsive to our queries, allowing the audit to be completed ahead of the 30 November 2020 deadline.

Grant Thornton UK LLP
March 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council, Scheme and Group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Group's financial statements to be £12,920,000, which is 1.3% of the Group's prior year gross cost of services expenditure. We determined materiality for the audit of the Council's financial statements to be £12,396,000, which is 1.3% of the Council's prior year gross cost of services expenditure. We determined materiality for the audit of the Scheme's financial statements to be £25,740,000, which is 1% of the Scheme's net assets as at 31 March 2020. We used this benchmark as, in our view, users of the Group and Council's financial statements are most interested in where the Group and Council has spent its revenue in the year and users of the Scheme's financial statements are most interested in the overall value of the pension fund.

We also set a lower level of specific materiality for senior officer remuneration of £20,000. This is based on our view of what would be material to the reader of the accounts for this sensitive area.

We set a lower triviality threshold, above which we reported errors to the Audit and Assurance Committee in our Audit Findings Report. For the Council this was £620,000, for the Group it was £640,000 and for the Scheme it was £1,287,000.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council, Group and Scheme's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements- Council

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. The pandemic circumstances will have had an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: - remote working arrangements and redeployment of staff to critical front line duties may impact on the quality of the production of the financial statements, and the evidence we can obtain through physical observation - volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	We worked with management to understand the implications of and the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. We also: • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose; • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluated whether sufficient audit evidence could be obtained using alternative approaches whilst working remotely; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and pension fund net liability valuations; • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; and • discussed with management the implications for our audit report opinion.	Appropriate arrangements were put in place to manage the Covid-19 situation and suitable disclosures were made in the financial statements. This included the use of alternative arrangements in the decision-making process as permitted by the Council's constitution. We were able to obtain sufficient audit evidence by utilising screensharing for the verification of completeness and accuracy of information produced by the Council, and share information through our cloud based software. Due to the potential impact that Covid-19 had on the value of your land and buildings at 31 March 2020, your valuer disclosed a material valuation uncertainty within their valuers report (as per the RICS Red Book Global.). The Council disclosed this material uncertainty within Note 3 of the financial statements. Following audit, Note 3 was updated to reflect the impact of Covid-19 on the valuation of the Council's share of Cumbria Local Government Pension Scheme's investments in UK Properties and Property Funds. The note states property valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. We reflected these material uncertainties within an "emphasis of matter" paragraph in our audit report opinion. There were no other findings in respect of this significant risk.

Audit of the Financial Statements- Council

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£555.239m) and the sensitivity of this estimate to changes in key assumptions. Additionally, management 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. An arithmetic error was discovered in the depreciated replacement cost (DRC) valuation template used to calculate the value of some of the Council's buildings in 2018/19. Management has investigated the issue and identified a potential understatement on land and buildings of £17.474m, in assets revalued as at 31 March 2019. Further more, assets that had not been revalued in 2018/19 were assessed again to determine whether the Balance Sheet was still materially correct. This piece of work concluded that there was a potential understatement of some £35m, at which stage a further 63 desktop valuations of buildings has been undertaken with the final figure being £32.001m. The Council is proposing a prior period adjustment in 2019/20 accounts to correct for this issue. We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We have: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • wrote to the valuer to confirm the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Council's valuer's report and the assumptions that underpin the valuation; • tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluated the assumptions made by management for those assets not revalued • engaged an auditor valuation expert to review methods and assumptions adopted by management's valuer.	As described on page 6, due to the potential impact that Covid-19 had on the value of your land and buildings at 31 March 2020, your valuer disclosed a material valuation uncertainty within their valuers report (in accordance with VPS 3 and VPGA 10 of the RICS Valuation – Global Standards). We reviewed the prior period adjustment in relation to the valuation of the Council's land and Buildings at 31 March 2019. We agreed the accounting treatment and disclosures made in Note 43 to the accounts. We concluded that the prior period adjustment was complete and fairly stated. We reviewed the model used by the valuer to derive depreciated replacement cost valuations and recommended that the Council review this to ensure that it is updated on a consistent and accurate basis. Our auditors valuation expert concluded the valuation process was in line with the mandatory requirements specified by RICS and the CIPFA Code of Practice. We recommended that in future the valuer should complete a formal valuation report covering the valuation process. Our audit identified that there were 41 assets carried in the balance sheet at an estimated valuation. The Council's finance team estimated the DRC valuation for these assets at 31 March 2019 with input from the in-house valuation team. The estimated value was £74.571 million. These assets were subsequently formally valued as at 31 March 2019 to be £69.038 million, by the in-house valuation team post submission of the accounts for audit. This indicated the values included in the balance sheet at 31 March 2019 were overstated by £5.532 million. This also had an immaterial impact on the depreciation charge, the amount charged to Other Comprehensive Income and Expenditure in 2018/19 and the closing balance at 31 March 2020. This has no impact on the Council's usable reserves balances.

Audit of the Financial Statements- Council

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in its balance sheet as the net pension liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved, at £855.5722 million in the Council's balance sheet, and the sensitivity of the estimate to changes in key assumptions. We therefore identified the 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.	We have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their actuary; • assessed the competence, capabilities and objectivity of the actuary; • assessed the accuracy and completeness of the information provided by the Council to the actuary; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed any additional procedures suggested within the report; and • obtained assurances from the auditor of Cumbria Local Government Pension Scheme as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.	Similarly to the valuation of land and buildings, there is also an impact of Covid-19 on the valuation of the LGPS pension fund property assets. Cumbria's Local Government Pension Scheme's accounts include a material uncertainty around the valuation of pension fund's property assets and as auditor of the Scheme, we included an emphasis of matter in our auditor's report in respect of the effects of Covid-19 on the valuation of direct, indirect and pooled property holdings. The Council's financial statements disclosures were updated within Note 3 to reflect this and our audit report opinion contained an "emphasis of matter" paragraph in this respect. The estimate of the Council's share of assets held by the Cumbria Local Government Pension Scheme was based on an interim valuation of the Scheme. The Scheme's draft accounts show that, the actual value of the Scheme was £16.014 million lower than the interim valuation. The Council's share of this reduction in value was £12.490 million. The audited accounts were updated to reflect this reduction in value. Our audit work did not identify any other issues in respect of this risk.

Audit of the Financial Statements- Council

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Management over-ride 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. Our 2018/19 audit identified two control weaknesses in relation to the Council's manual journal review process and journal upload tool. We are aware that both of these weaknesses have been addressed by management during the 2019/20 financial year. 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.	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 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.	We carried out audit procedures to confirm that the two control weaknesses in relation to the Council's manual journal review process and journal upload tool were addressed during the 2019/20 year. We carried out additional procedures, including an analytical review of journals posted prior to the issue being addressed and additional sample testing of impacted journals. This work did not identify any issues. Our audit work did not identify any evidence of management over-ride of controls
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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Cumbria County Council, mean that all forms of fraud are seen as unacceptable Therefore we did not consider this to be a significant risk for Cumbria County Council.	

Audit of the Financial Statements- Scheme

Pension Scheme Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

<table>
<tr><th>Risks identified in our audit plan</th><th>How we responded to the risk</th><th>Findings and conclusions</th></tr>
<tr><td>The valuation of Direct Property

The Scheme revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved, at £161.3 million as at 31 March 2019, and the sensitivity of this estimate to changes in key assumptions.

Management has engaged the services of a valuer to estimate the fair value as at 31 March 2020.

We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</td><td>We have:
• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
• independently requested year-end confirmations from the direct property manager and evaluated the competence, capabilities and objectivity of the valuation expert;
• written to the valuation expert to confirm the basis on which the valuations were carried out;
• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, the Scheme’s valuer’s report and the assumptions that underpin the valuation;
• reviewed the investment manager service auditor reports on design effectiveness of internal controls; and
• engaged the use of an auditor’s valuation expert to support our work on direct property valuations.</td><td>The Scheme’s direct property valuer declared a ‘material uncertainty’ in relation to the valuation of the Scheme’s direct property at 31 March 2020. This is as a direct result of the impact Covid-19 has had on the markets upon which the valuation is based. Our audit report included an emphasis of matter in relation to the disclosure in Scheme's accounts, which reflected this material uncertainty.

Our audit work did not identify any other issues in respect of this significant risk.</td></tr>
<tr><td>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.</td><td colspan="2">Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Scheme, we determined that the risk of fraud arising from revenue recognition could 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 Local Government Pension Scheme, mean that all forms of fraud are seen as unacceptable
Therefore we did not consider this to be a significant risk for Cumbria Local Government Pension Scheme.</td></tr>
</table>

Audit of the Financial Statements- Scheme

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
Valuation of Level 3 Investments The Scheme revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements as at 31 March 2020. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year-end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified the valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	• Evaluated management's processes for valuing Level 3 investments; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations; • independently requested year-end confirmations from investment managers; • evaluated the competence, capabilities and objectivity of the level 3 investment managers as valuation experts; and • reviewed investment manager service auditor reports on design effectiveness of internal controls.	The valuation in the financial statements for 7 investment managers was overstated by £1.468 million, as the actual 31 March 2020 valuations had not been used. For the impacted investment managers, an estimate had been used, as the actual 31 March 2020 valuation was not available prior to submission of the draft accounts for audit. It is usual practice for certain types of investment to have longer lead times in the reporting to the scheme and custodian. The draft accounts were updated to reflect the 'material uncertainty' attached to the valuation of the Scheme's indirect property holdings, as well as the direct property holdings. Our audit work did not identify any other issues in respect of this significant risk.
Management over-ride 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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	• Evaluated the design effectiveness of management's controls over journals; • analysed the journals listing and determined a criteria for selecting high risk unusual journals; • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gained an understanding of the accounting estimates and critical judgements made by management and considered their reasonableness with regard to corroborative evidence; and • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.	Our prior year audit work identified a control deficiency in relation to the Scheme's journal upload tool. 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. This control deficiency was addressed by management during the financial year. We carried out additional audit procedures to gain assurance that their had been no unusual journals posted prior to the resolution of the issue. Our audit work did not identify any evidence of management over-ride of controls

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council and Group's financial statements on 30 November 2020.

Preparation of the financial statements

The Council and Group presented us with draft financial statements in July 2020 in accordance with the agreed timescale, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Assurance Committee on 27 November 2020. We included an emphasis of matter paragraph in our Council and Group audit report in respect of the uncertainty over valuations of the Council's land and buildings and the Council's share of the Scheme's direct and indirect property assets, given the Coronavirus pandemic.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the draft Statement of Accounts in July 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council, Group and Scheme and with our knowledge of the Council, Scheme and Group. Only minor changes were made following audit.

Pension scheme accounts

We gave an unqualified opinion on the pension scheme accounts of Cumbria Local Government Pension Scheme on 30 November 2020. We reported the key issues from our audit to the Council's Audit and Assurance Committee on 23 November 2020. We included an emphasis of matter paragraph in our Scheme audit report, highlighting direct and indirect property valuation material uncertainties. The Accounts were produced to a very high standard and the finance team produced good working papers and were responsive to our audit queries.

Whole of Government Accounts (WGA)

We carried out work in line with instructions provided by the NAO . We issued an assurance statement which did not identify any issues for the group auditor to consider on 6 January 2021.

Certificate of closure of the audit

We were unable to certify that we had completed the audit of the financial statements of Cumbria County Council on 30 November 2020 because of delays around the completion of our Whole of Government Accounts work. This was because of an MHCLG system issue which was outwith the control of both the Council and audit team. The issue was resolved and we certified that we had completed the audit in accordance with the requirements of the Code of Audit Practice on 7 January 2021.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in November 2020, we agreed recommendations to address our findings:

- Carry out a detailed sensitivity analysis around the key uncertainties and assumptions included in the Budget outturn 2020/21 and revisions to the MTFP to assist agile financial management to secure the Council's medium term financial sustainability, in the light of the uncertain context for Local Government.
- Challenge the development of proposals for closing and identifying the budget gap in the MTFP, to ensure they are both realistic and deliverable.

Management provided the following response:

- The Council continues to robustly review its budget forecast and planning assumptions. The unprecedented and uncertain context for Local Government requires that this rigour is maintained, but also presents challenges in determining the extent of the budget challenge the medium term. The continuing impacts of COVID-19 both impact on the demand for services (expenditure) and sources of finance (income).
- Alongside this the Council continues to support sector bodies e.g. Local Government Association, County Council's Network, Rural Services Network etc in lobbying government for a fair allocation of resources and clarity of the funding framework for Local Government.
- Financial sustainability is essential to enable the Council to deliver key services and respond to the continuing impacts of the COVID-19 pandemic whilst leading and facilitating recovery of the county, working with partners, communities and businesses.

Overall Value for Money conclusion

We were satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.
.

Value for Money conclusion

Risks identified in our audit plan

Medium term financial plan (MTFP) and financial sustainability

The Council's MTFP covers the 5 year period 2020-2025 and identifies a further £44.0m of savings required in the period. There is a budget gap of £26.3m for the last three years of the MTFP, with work ongoing to identify future savings. The MTFP also identifies a number of significant pressures, relating to demand, inflation and investment in transformation and priorities. The Council's government funding position beyond 2020-21 is unknown.

The Council's 2019/20 outturn was to budget but there were variances in directorate outturns at year-end. The most significant overspends were due to demand for services within the People Directorate with an overspend of £18.4m, driven mainly by pressures in children and families and younger adults. This was offset by underspends in other directorates. The Council budget set in February 2019 included £22.73m of new savings. Overall 75.0% of the savings were delivered in year giving a shortfall of £5.674m. The Covid-19 pandemic impacted the Council's operations in Q4. The Council's 2019/20 accounts includes £1.044m of Covid-19 related costs, which was funded by £1.044m of additional government grant. Whilst the long term impacts of Covid-19 are unknown, as with other authorities it is likely to pose significant challenges to service delivery and therefore financial sustainability for a number of years.

Given the 2019/20 outturn, savings gaps in the MTFP, uncertainties around the future funding settlement and disruption brought by Covid-19, the MTFP and financial sustainability of the Council represents a significant risk to our VFM conclusion. In response to the risk we will; review arrangements for developing the MTFP; review progress on delivery of the MFTP, identification of future required savings and managing demand pressures; challenge key assumption in the MTFP and review arrangements put in place to manage the financial impact of Covid-19.

Findings

The Council has good 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 Council's 2019/20 budget set in February 2019 included £22.7 million of new savings. Overall, 75.0% of the savings were delivered in year. Of the savings delivered, all but £0.16 million were recurrent and this is consistent with the MTFP. The main area of slippage was around the Promoting Independence - Adults Programme. £9.3 million of savings were achieved against a plan of £15.4 million. Undelivered savings are carried forward to the 2020/21 budget, but as expected slippage is continuing largely as a result of Covid-19.

The Council's outturn for 2019/20 was to budget but there were significant overspends due to demand for services (£18.4 million in the people directorate). These were partly offset by underspends in other directorates, including other corporate items were there was an underspend of £7.262 million against the inflation budget, the release of a £1.5 million contingency and release of £3.075 million of earmarked reserves. We have confirmed this was properly approved by Cabinet.

At 31 March 2020, the Council had a £6.991 million deficit on its Dedicated Schools Grant Reserve. This is projected to increase to £11.0 million as at 31 March 2021, £13.3 million as at 31 March 2022 and £12.4 million as at 31 March 2023. The increase to the forecast deficit is as a result of pressure on the High Needs Block, which is a known national issue.

The Council's has commercial group activities through Cumbria County Holdings Ltd (CCH Ltd). The financial outturn for 2019/20 was a loss of £0.206 million, which included a loss for Cumbria Waste Management of £1.14 million. In 2019/20 the Company was unable to pay a dividend of £1m as a result of challenging trading circumstances within the waste management subsidiary and in responding to COVID pandemic. A reduced dividend was expected to be paid of £0.500m, compared to target of £1m, but in the light of the COVID pandemic, cash balances were protected to provide the Company with some additional resilience to address the immediate impacts of pandemic. Latest budget monitoring indicates that the Company has returned to a breakeven position by the end of the second quarter prior to the second wave.

Value for Money conclusion

Findings (continued)

The MTFP agreed in February 2020, prior to the significant escalation of the COVID-19 pandemic set out a balanced budget for 2020/21 and how it intended to achieve a balanced budget for 2021/22. A budget gap of £5.9 million for 2022/23 increasing to £18.6 million in 2023/24 and increasing to £26.3 million in 2024/25. The Council has a track record of delivering savings with combined £9.2m slippages experienced in 2018/19 and 2019/20. In setting the 2020/21 budget, the Council agreed budget savings, which in total since 2011/12 amount to £282 million, with £272.8 million of those savings having been delivered.

The Council has reviewed its 2020/21 budget to take account of the impact of Covid-19 and is forecasting a balanced budget position for 2020/2021. This is on the assumption that additional costs associated with the third wave of Covid-19 will be funded by the government. An unfunded pressure of £8.593million was reported to Cabinet at its meeting in December which the Council expects will be offset by one-off delays to expenditure, which mostly related to delays in staff recruitment during the first wave of the pandemic. Cabinet will receive an update on an improving forecast at its meeting in March and the assumptions and updated estimates in relation to the December report. We are satisfied that these are reasonable assumptions to make, although given the current climate these will have to be closely monitored and agilely managed, for any significant changes.

On 12th November Cabinet received the Development of the MTFP 2021-2026 which identified a budget gap for the five year period of £51.192m. The total savings requirement for the five year MTFP 2021-2026, after recognising an element of savings assumed in the current MTFP (2020-2025) will not be able to be achieved, being £58.361m. This forecast includes a number of significant assumptions and uncertainties, relating to Covid-19, the future government funding settlement, future receipt of business rates and council tax and demand for services. Net savings of £17.067m are identified within the report for the first year of the MTFP, 2021/22, leaving a balance of £41.192m to be delivered during years 2 to 5.

The Council has developed proposals totalling £17.667m for 2021/22 with regards to closing the £51.192m gap, of which £7.000m relates to demand, £0.300m relates to efficiency with the balance of £43.892 million for 2021/22 relating to financing. Savings to be found over years 2 to 5 of the MTFP total £41.294m. We have challenged the robustness of assumption around the proposed demand savings which relate to children looked after of £2.000m, the decrease in demand upon the national concessionary travel scheme of £5.000m, and financing assumptions, principally around inflation of £9.397m.

The Council's 2020/21 Budget Proposal and Medium Term Financial Plan for the period 2021/22 – 2025/26 was considered and recommended to Council by Cabinet on 4 February 2021. This was approved by Council on 18 February 2021. The Budget Proposal sets out a balanced revenue budget and that the General Fund Balance at 31 March 2021 will increase from £15 million to £25 million, after the approval of a £13.687 million transfer to a Financial Volatility Earmarked Reserve in December 2020. At 31 March 2020 usable reserves had reduced by £9.835m (10.6%) from 31 March 2016 and forecasts indicates that usable reserves will fall over the course of the Medium Term Financial Plan. As at 1 April 2020 earmarked reserves were £60.592 million. It is estimated that at 31 March 2021 that will have decreased to £58.243 million, and a further decrease to £47.126million by 31 March 2022. In the longer term future reserves are projected to be at £38.305million, by 31 March 2026. In view of the impact of COVID-19 on services and income, the continuing need to identify savings, funding and economic uncertainty and the shift in funding to a reliance on locally generated income, the Council should continue to identify opportunities to supplement its reserves in the medium term.

Conclusion

Overall, the Council has effective financial planning and financial management arrangements in place. Whilst the Council has a good record on delivering savings, the delivery of future planned savings will be even more challenging in context of Covid-19 impact. The Council should continue to put robust budget monitoring arrangements in place to ensure planned savings are delivered. Agile financial management to ensure the Council's financial sustainability is critical, to avoid further saving gaps and non-recurrent savings that could create significant future budget gaps. The Council should continue to work with partners locally and with government to address the DSG reserve deficit, which is forecast to increase and be material by March 2022. Where the Council considers it is advantageous to explore opportunities for commercial income in the future, the council should consider risks where appropriate and continue to monitor its existing income streams closely.

Value for Money conclusion

Conclusion (continued)
The Council's budget for 2020/21 and the draft MTFP for 2021-2026 include significant assumptions around the impact of Covid-19. We recommend that management carry out a detailed sensitivity analysis around the key uncertainties and assumptions made to aide the agility which the context will require to manage the Council's financial sustainability. Proposals for closing the £51.192 million budget gap, up to March 2026, in the MTFP are developing. Management should continue to challenge the deliverability of these scheme, with detailed plans for saving delivery particularly in those areas relating to demand and financing. The Council is forecasting to have a further reduction to its usable reserves balance. With significant future budget gaps and unknowns around the impact of Covid-19 and Brexit, the Council, as with other Local Authorities, needs to closely monitor its run rate on reserves and identify potential recurrent savings or income generation opportunities to further strengthen its financial sustainability.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	September 2020
Audit Findings Report	November 2020
Annual Audit Letter	February 2021

Fees

	Planned £	Actual fees £
Audit of Cumbria County Council	114,154	131,277
Audit of Cumbria Local Government Pension Scheme	22,707	30,957
Total fees	**136,861**	**162,234**

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £88,254 for the Council and £18,957 for the Scheme assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table overleaf.

Fees for non-audit services

Service	Fees £
Audit related services- Scheme	
• Audit Related Services Provision of IAS 19 Assurances to Scheme Employer auditors	7,000
Non-Audit related services- Scheme	Nil
• None	
Total- Scheme	7,000
Non Audit related services- Council and Group	
• CFO Insights Licence	12,500
• Contract Assurance	50,730
Audit related services- Council and Group	
• Certification of Teachers Pension Claim	6,500
• Harbour Authority Accounts Specified Procedures	1,000
Total- Council and Group	70,730

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, Scheme and Group. The table above summarises all non-audit services which were identified.

- We have considered whether non-audit services might be perceived as a threat to our independence as the Council, Scheme and Group auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council, Scheme and Group 's policy on the allotment of non-audit work to your auditor.

A. Reports issued and fees

Audit fee variation- Council

Area	Reason	Fee proposed
Scale fee		**88,254**
Increased challenge and depth of work	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	3,300
Materiality	We reduced the materiality level, reflecting the higher profile of local audit. This increased our audit scope and sampling	4,000
Pensions – valuation of net pension liabilities	We increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.	3,500
Property Plant and Equipment Valuation	We increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.	4,350
Property Plant and Equipment Valuation – work of experts	We engaged our own audit expert – Wilks, Head and Eve to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin the valuation of land and buildings.	5,000
Covid-19 new significant risk	As highlighted on page 6, we carried out additional procedures in relation to our Covid-19 financial statement level risk.	5,000
Journals control weakness	As highlighted on page 9, we carried out additional procedures in relation to the journal control weaknesses identified during our 2018-19 audit.	750
Total	As reported in our audit plan. This fee variation has been approved by PSAA.	**114,154**
Covid-19 overruns	This reflects the additional time it has taken us to deliver the 2019/2020 audit, in view of remote working arrangements and additional complexity brought by the pandemic to our VFM and accounts work. This fee variation is still subject to approval by PSAA.	17,123
Final Fee	As reported in our audit findings report	**131,277**

A. Reports issued and fees

Audit fee variation- Scheme

Area	Reason	Fee proposed
Scale fee		18,957
Increased challenge and depth of work	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This required additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	1,500
Valuation of level 3 investments	Specifically, the FRC has highlighted that the quality of work in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we enhanced the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments to reflect the expectations of the FRC and ensure we issue a safe audit opinion.	1,500
Directly held property – work of experts	We increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.	750
Total	As reported in our audit plan. This fee variation has been approved by PSAA.	**22,707**
Covid-19 overruns	This reflects the additional time it has taken us to deliver the 2019/2020 audit, in view of remote working arrangements and additional complexity brought by the pandemic to our VFM and accounts work. This fee variation is still subject to approval by PSAA.	3,750
Direct Property– work of experts	We engaged our own audit expert – Wilks, Head and Eve to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin the valuation of Direct Property.	4,500
Final Fee	As reported in our audit findings report	**30,957**

grantthornton.co.uk