The Audit Findings Report for Cumbria Local Government Pension Scheme

Year ended 31 March 2023

January 2024

Contents

Your key Grant Thornton team members are:

John Farrar

Key Audit Partner

E john.farrar@uk.gt.com

Richard Anderson

Senior Manager

E richard.j.anderson@uk.gt.com

Fay Woodmass

Manager

E fay.a.woodmass@uk.gt.com

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

Name: John Farrar

For Grant Thornton UK LLP

Date: 1 December 2023

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

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Cumbria Local Government Pension Scheme ('the Pension Scheme') and the preparation of the Pension Scheme's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Scheme's financial statements give a true and fair view of the financial transactions of the Pension Scheme during the year ended 31 March 2023 and of the amount and disposition at that date of the Pension Scheme's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund 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.

Our audit work was completed remotely between July and November 2023. Our findings are summarised in this report. We have not identified any audit adjustments that impact the Pension Scheme's primary statements. A small number of disclosure change have been made to the notes to the financial statements following audit. Audit adjustments are detailed in Appendix C. We have also raised recommendations for Management as a result of our audit work. These are set out in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- receipt of management representation letter; and
- review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of the Pension Scheme and the financial statements we have audited.

Our anticipated opinion on the financial statements will be unmodified. We are required to give a separate opinion for the Pension Scheme Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Scheme's Annual Report at the same time as our financial statements opinion.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

On this audit we have run into difficulties obtaining audit evidence from the service organisation who manages the Pension Scheme's pensions administration system (Local Pensions Partnership). This has led to significant delays in us completing our work on member data, benefit payments and the change in pension administration system. See Appendix D for the impact of these delays on our 2022/23 audit fee.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Scheme and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Scheme, the valuation was undertaken by the Pension Scheme's actuary, Mercer Limited, and showed that on the basis of the assumptions adopted, the Pension Scheme's assets of £3.318 billion represented 110% of the its past service liabilities at 31 March 2022. The results of the latest triennial valuation are reflected in Note 23 to the financial statements.

We have performed testing of the completeness and accuracy of source data used by the actuary in the triennial valuation liability calculation. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 25 members and identified 5 exceptions. We had to carry out additional audit procedures to confirm that the issues identified would not impact the triennial valuation liability calculation or any other areas of the financial statements. The exceptions do indicate a weakness in the Pension Scheme's controls for ensuring the actuary is provided with accurate source data. Please see page 10 and 25 for the further detail regarding these exceptions and a recommendation that the Pension Scheme work with it's pension administration service provider to ensure that the actuary is provided with accurate source data for future triennial valuations.

See Appendix D for the impact of this work on our 2022/23 audit fee.

2. Financial Statements

Overview of the scope of our audit

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

As 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.

For Cumbria Local Government Pension Scheme, the Audit Committee fulfil the role of those charged with governance. The Pensions Committee also considers the draft financial statements and is part of the overall member oversight process.

Audit approach

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

- An evaluation of the Pension Scheme's internal controls environment, including its IT systems and controls.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you on 20 September 2023.

Due to Gareth Kelly's ongoing sickness absence, John Farrar assumed the Engagement Lead role on the audit in November 2023.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 11 December 2023, as detailed in Appendix G. These outstanding items include;

- receipt of management representation letter; and
- review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the pensions team and other staff. The accounts were supported by good working papers and the pensions team have been responsive to our audit queries.

As highlighted on page 4, we faced audit challenges in obtaining evidence from the Pension Scheme's pensions administration system and had to carry out additional procedures, to gain sufficient audit assurance in respect of the accuracy of triennial valuation source data provided to the actuary. See Appendix D for the impact on our 2022/23 audit fee.

2. Financial Statements

Our approach to materiality

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

We have revised materiality due to the actual gross investment assets changing significantly from that anticipated at the planning stage. We have also revised our lower specific materiality for the fund account, due to a significant change in gross expenditure from that anticipated at the planning stage. We set out in this table our determination of materiality for the Pension Scheme.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	28,462,000	0.9% of the gross investment assets of the Pension Scheme at 31 March 2023. Materiality has been set at a level that ensures we can provide employer body auditors sufficient assurance in relation to IAS 19 disclosures in employer financial statements. The lower materiality compared to the prior year also reflects the heightened interest in the Pension Scheme following local government reorganisation in Cumbria and the reduction in value of the Pension Scheme's investment assets.
Performance materiality	19,923,400	70% of headline materiality. This reflects that the Pension Scheme has a strong control environment and produces financial statements to a high standard. The lower performance materiality compared to the prior year reflects the change in member data system during the year, which increased the risk of error.
Trivial matters	1,423,100	5% of headline materiality. This reflects matters that are clearly inconsequential, whether taken individually or in aggregate.
Materiality for fund account	11,217,000	This equates to 9% of 2022/23 gross operating costs. A lower specific materiality has been determined for the fund account because employers, current and prospective pensioners will have a heightened interest in fund account transactions. This is because paying pensions and collecting contributions are core aspects of what a LGPS fund does, current pensioners and prospective pensioners will want assurance that pension payments are accurate and employers and prospective pensioners will want assurance that contributions are accurate. The lower specific materiality for the fund account has been applied to the audit of all fund account transactions, except for investment transactions, for which materiality for the financial statements as a whole has been applied.

2. Financial Statements: Significant risks

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

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

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Scheme faces external scrutiny of its spending and stewardship and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to this risk we have; • evaluated the design effectiveness of management controls over journals; • analysed the journals listing and determined 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. Our audit work has not identified any issues in respect of this significant risk.
ISA 240 Fraud in Revenue and Expenditure Recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We have also rebutted the presumption of fraud in expenditure recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Scheme, we have determined that the risk of fraud arising from revenue and expenditure 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 (the Pension Scheme's administering authority) mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk for the Pension Scheme.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 Investments (excluding Directly held property) The Scheme revalues its investments on a quarterly 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 due to the size of the numbers involved (£1.147 billion at 31 March 2022 excluding directly held property) and the sensitivity of this estimate to changes in key assumptions. 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 as valuation experts to estimate the fair value as at 31 March 2023. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	In response to this risk we have; • 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 provided for these types of investments; to ensure that the requirements of the Code are met; • independently obtained year-end confirmations from all level 3 investment managers; • tested the valuation of all level 3 investments by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2023 with reference to known movements in the intervening period; • evaluated the competence, capabilities and objectivity of all level 3 investment managers, as valuation experts; • ensured that all level 3 investment valuations had been input correctly into the Pension Scheme's financial records; and • reviewed investment manager service auditor reports (where available) on design effectiveness of internal controls. For 9 of the Pension Scheme's level 3 investment managers a 31/03/2023 valuation was not available at the time that the financial statements were submitted for audit. This meant that the Pension Scheme had to estimate the value of these investments using the last available valuation and known cash movements. Subsequent to this, the Pension Scheme has received 31/03/2023 valuations for each of these managers which indicate an understatement of the Pension Scheme's gross investment assets of £18.597 million. This understatement is immaterial and supports the reasonableness of the estimates adopted in the draft accounts. We are satisfied that no adjustments are required to the draft financial statements in relation to this issue. Our audit work found only limited evidence of management review of level 3 investment service auditor reports. Whilst we have reviewed service auditor reports to confirm that there are no exceptions that impact the Pension Scheme's financial statements, we believe Management's controls could be strengthened in this area. In Appendix B we have raised a recommendation that Management introduce a formal, documented review of service auditor reports for all level 3 investment managers. A service auditor report was not obtained for one level 3 investment manager (BlackRock). Given the value of this investment was £2.283 million at 31 March 2023 and we have traced the Pension Scheme's holding back to audited accounts, we are satisfied that there is not a risk of material misstatement in relation to this issue. Our audit work has not identified any other issues in respect of this significant risk.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Directly held 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. Management have engaged the services of a valuer to estimate the current value as at 31 March 2023. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£0.209 billion at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions. 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.	In response to this risk we have; • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • evaluated the competence, capabilities and objectivity of the valuation expert; • discussed with the valuer the basis on which the valuation was carried out; • challenged the information and assumptions used by the valuer and assessed completeness and consistency with our understanding; • tested, on a sample basis, revaluations made to ensure they have been input correctly into the Pension Scheme's financial records; • engaged our own auditor's valuation expert to review the instructions provided to the valuer and valuation report; and • reviewed the investment manager service auditor report on design effectiveness of internal controls. Our audit work has not identified any issues in respect of this significant risk..
Incomplete or inaccurate financial information transferred to the new pension administration system Local Pensions Partnership Administration (LPPA) provide the benefits administration services for the Scheme. In December 2022, LPPA migrated the Scheme's membership data from the previously used Altair system to a new Civica UPM system. It is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous administration system. We therefore identified the completeness and accuracy of the transfer of member data information to the new administration system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	In response to this risk we have; • obtained an understanding of the process used for the new system implementation; • tested the completeness and accuracy of the data migration; and • carried out a detailed ITGC assessment on the Civica UPM system. Our work has not identified any issues in relation to the migration of the Pension Scheme's membership data from the previously used Altair system to the new Civica UPM system.

2. Financial Statements: new issues and risks

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

Issue	Commentary	Auditor view
Member Data As part of our work providing assurances to auditors of employer bodies we have performed testing of the completeness and accuracy of source data used by the actuary in their triennial valuation liability calculation. As part of this work, we tested a sample of 25 members and identified 5 exceptions: • We identified 2 instances (1 dependent and 1 pensioner) where the date of joining the scheme was incorrect in the member data system. • We identified 2 instances (both pensioners) where an incorrect date of retirement was provided to the actuary. • We identified 1 instance (pensioner) where the retirement date was recorded incorrectly in the member data system.	We had to carry out additional audit procedures to confirm that the issues identified would not impact the triennial valuation liability calculation or any other areas of the Pension Scheme's financial statements. This involved liaison with the Pension Scheme's member data service provider and actuary. We also had to engage our own internal actuary to support our judgements in this area. In each of these instances, the underlying pension was calculated correctly, so there was no impact on the triennial valuation liability calculation or financial statements.	Whilst in these instances there has been no impact on the triennial valuation or financial statements, errors of this nature in member data do increase the risk of misstatement. These exceptions do indicate a weakness in the Pension Scheme's controls for ensuring the actuary is provided with accurate source data. Please see Appendix B for the further detail regarding these exceptions and a recommendation that the Pension Scheme work with it's pension administration service provider to ensure that the actuary is provided with accurate source data for future triennial valuations.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments excluding direct property £1.176 billion	The Pension Scheme has investments in unquoted equity investments, limited partnerships and indirect property. These investments in total are valued on the Net Assets Statement as at 31 March 2023 at £1.176 billion. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management use various valuation techniques that require significant judgement in determining appropriate assumptions. Investments in private equity funds and unquoted limited partnerships are valued based on the Pension Scheme's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association. Limited partnerships fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership. All valuations are performed in accordance with the appropriate Standards of Professional Appraisal Practices ("USPAP") and International Valuation Standards ("IVS") or provides an IPEVC (International Private Equity and Venture Capital) (or other recognised industry standard) compliant valuation as applicable. The General Partner is responsible for preparing financial statements which give a true and fair view in accordance with International Financial Reporting Standards and applicable laws. Fund officers review the Annual Reports of the partnerships which have been independently audited. Valuations for Private Equity investments are usually received at least a quarter in arrears, and these investments are valued at an estimate to the fair value at 31 March, as best as is available at the time of preparation.	Audit procedures carried out are described on page 8. We continue to accept that the current approach of using the latest available valuation, adjusted for known cash movements, is the most accurate estimation basis. Valuations received subsequent to the financial statements being submitted for audit indicate an understatement of the Pension Scheme's gross investment assets of £18.597 million. This understatement is immaterial and supports the reasonableness of the estimates adopted in the draft financial statements. We are satisfied that no adjustments are required to the draft financial statements in relation to this issue. As outlined on page 8, our audit work found only limited evidence of management review of level 3 investment service auditor reports. In Appendix B we have raised a recommendation that Management introduce a formal, documented review of service auditor reports for all level 3 investment managers.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Assessment

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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Direct Property - £0.157 billion	The Pension Scheme invests in direct property holdings for rental income and capital growth, and to maximise diversification thereby reducing the risk across the portfolio. At 31 March 2023 the portfolio was valued at £156.540 million and included 21 properties ranging from £1.925 million to £15.300 million each. These properties cover a mix of sectors such as offices, industrial, high street retail units and retail warehouses, and are also geographically spread across England and Scotland. The intention of this diversification is to mitigate risk by enhancing the diversification within this asset class. The properties are valued at fair value at 31 March 2023 by an independent valuer, CBRE Ltd in accordance with the Royal Institution of Chartered Surveyors' Valuation - Global Standards (incorporating the International Valuation Standards) and the UK national supplement ("the Red Book") current as at the valuation date. The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arm's-length terms. Each valuation has been prepared on the basis of "Fair Value", The valuation represents the figure that would appear in a hypothetical contract of sale at the valuation date. No allowances have been made for any expenses of realisation or for taxation which might arise in the event of a disposal. The properties are valued individually and no account has been taken of any discount or premium that may be negotiated in the market if all or part of the portfolio was to be marketed simultaneously, either in "lots" or as a whole. Acquisition costs have not been included in the valuation. No account has been taken of any inter-company leases or arrangements, or of any mortgages, debentures or other charges. No account has been taken of the availability or otherwise of capital grants	Our detailed audit work in respect of Direct Property is described on page 9. In conjunction with our auditor's expert valuer, we have reviewed the method and assumptions adopted by the Pension Scheme's valuer and are satisfied they are appropriate. We have tested a sample of valuations, including key inputs and assumptions. We have found no issues with this testing and are satisfied that the valuations are appropriately disclosed in the financial statements.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.
Level 2 Investments – £1.749 billion	The Pension Scheme has investments in pooled funds where the underlying assets are quoted assets such as equity and fixed interest bonds. These assets are valued on the Net Assets Statement as at 31 March 2023 at £1.749 billion. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management rely on the information, which they are given from the various fund managers.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought confirmations of year end valuations. We have also evaluated the competence, capabilities and objectivity of all material Level 2 investment managers as valuation experts. Where possible, we have carried out investment price testing for a sample of level 2 investments. We have found no issues with this testing and are satisfied that the valuations are appropriately disclosed in the financial statements.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Present Value of Past Service Liabilities Estimate Valuation Basis £2.986 billion IAS 19 Basis £2.913 billion	The Pension Scheme is required to include within its financial statements an estimate of the future pensions payable based upon estimates that have accrued as at 31st March 2023. Note 23 includes two separate estimates of the value of these past service liabilities: 1) a valuation based on the methodology used as part of the triennial valuation of the Pension Scheme (the last valuation was as at 31st March 2022), which is based on assumed growth of the assets held by the Pension Scheme; and 2) a valuation calculated in compliance with IAS19 which is based on the forecast growth of bond yields. Mercer Limited design the model used in respect of this accounting estimate in line with the requirements of the accounting standards and provide details of this to the Pension Scheme. The methodology taken by Mercer Limited complies with Technical Actuarial Standard 100 as issued by the Financial Reporting Council (FRC). **Valuation Basis**: The valuation of the Pension Scheme at 31st March 2023 is based on rolling forward the results of the last actuarial valuation as at 31st March 2022. There are minor amendments to the assumptions used between the 2019 and 2022 valuations reflecting the latest economic forecasts and demographic expectations (e.g. mortality rates). Officers liaised with Mercer Limited to set the assumptions used in the 2022 valuation. These assumptions were approved by Pensions Committee in September 2022. These assumptions are detailed in Note 23 of the financial statements. **IAS 19 Basis**: The IAS 19 valuation of past service liabilities uses different, and more generic, assumptions that those used for the valuation basis. The discount rate, inflation and pension increase assumptions are derived by Mercer Limited in line with the requirements of the accounting standard. The remaining assumptions (demographic and salary growth) are based on the ongoing funding assumptions, which Mercer Limited confirmed are appropriate for the accounting estimate. There have been some minor amendments to the assumptions used by Mercer Limited, and these have been taken in compliance with the Technical Actuarial Standard 100 as issued by the Financial Reporting Council (FRC). These assumptions are detailed in Note 23 of the financial statements.	In understanding how management has calculated the estimate of the net pension liability we have: • assessed the use of a management's expert actuary and their calculation approach; • used PwC as auditor's expert to assess assumptions made by the actuary; • assessed the completeness and accuracy of the underlying information used to determine the estimate; and • assessed the adequacy of the disclosure of the estimate in the financial statements. We have found no issues with this testing and are satisfied that the valuations are appropriately disclosed in the financial statements.	We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating		
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure
E5 (General Ledger)	ITGC assessment (design and implementation effectiveness only)	Amber- see note 1	Amber- see note 1	Amber- see note 1	Amber- see note 1
Altair (Member Data System to December 2022)	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green
Civica UPM (Member Data System post December 2022)	ITGC assessment (design and implementation effectiveness only)	Green	Green	Green	Green

Our work on the Administering Authority's IT General Controls relating to E5 (General Ledger) identified that no review was performed of user and IT personnel access rights during the 2022/23 year. There was also no formal control for managing access rights for changing roles. Our audit work supports that other mitigating controls were in place for each of these systems and there is not a risk of material misstatement to the financial statements in relation to these issues. However we believe that controls could be strengthened by introducing a formal annual review of user and IT personal access rights and ensuring access rights to key systems are reviewed where an employee changes role. See Appendix B for a recommendation in relation to this issue.

Assessment

- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- Not in scope for testing

2. Financial Statements: Information Technology

We also performed specific procedures in relation to the change in member data system during the year. We observed the following results:

IT system	Event	Result	Related significant risks
Civica UPM	New system implementation. Migration of the Pension Scheme's membership data from the previously used Altair system to the new Civica UPM system.	In response to this risk we have; • obtained an understanding of the process used for the new system implementation; • tested the completeness and accuracy of the data migration; and • carried out a detailed ITGC assessment on the Civica UPM system. Our work has not identified any issues in relation to the migration of the Pension Scheme's membership data from the previously used Altair system to the new Civica UPM system.	Incomplete or inaccurate financial information transferred to the new pension administration system. See page 9 for further details.

2. Financial Statements: other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Scheme, which is included in the Audit Committee papers.
Audit evidence and explanations	All information and explanations requested from management was provided. As described on page 4, we have run into difficulties obtaining audit evidence from the service organisation who manages the Pension Scheme's pensions administration system. This has led to delays in us completing our work on member data, benefit payments and the change in pension administration system. See Appendix D for the impact of these delays on our 2022/23 audit fee.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all investment fund managers. This permission was granted and the requests were sent and returned with positive confirmations.
Accounting practices	We have evaluated the appropriateness of the Pension Scheme's accounting policies, accounting estimates and financial statement disclosures. Our work identified the following issues: • In Note 2.9 (Financial Assets), valuation policies in relation to market-quoted investments, fixed interest securities, delisted securities and long term assets have been removed on the basis that there were no such investments held by the Pension Scheme at 31 March 2023. Reference to 'loans and receivables' has also been updated to refer to financial assets measured at amortised to ensure the terminology used is consistent with the requirements of IFRS 9. • Note 10 F (Fair Value – Basis of Valuation) has been updated to ensure the note does not include any investment types that are no longer held by the Pension Scheme. Descriptions of assets have also been updated for consistency with the other tables in Note 10 (Investment Assets). • In Note 11 (a) (Classification of financial instruments carried at fair value), money market funds with a value of £67.971 million at 31 March 2022 and £73.219 million at 31 March 2023 were classified as held at amortised cost in the draft accounts. The Pension Scheme's business model is to hold these investments to collect contractual cash flows. However, the standard (IFRS 9) also requires that they are solely payment of principal and interest. Management accept that this test is not met and agreed that the correct classification is fair value through profit and loss. The note has been restated to disclose money market funds with a value of £67.971 million as held at fair value through profit and loss at 31 March 2022. Money market funds with a value of £73.219 million have also been reclassified as held at fair value through profit and loss at 31 March 2023. The value of these assets has not been restated as there is a clearly trivial difference between measuring money market funds at amortised cost and fair value through profit and loss. A footnote has been added to the note to disclose "the nature of the prior period error".

2. Financial Statements: other communication requirements

Issue	Commentary
Accounting practices (continued)	• Note 15 (Additional Voluntary Contributions) has been updated to reflect additional voluntary contributions relating to Scottish Widows, Utmost Life and Prudential Assurance Company. These amounts were not known at the time the financial statements were submitted for audit. • In Note 16 (Related Party Transaction), we have noted that the Pension Scheme has used contributions as an estimate for post-employment benefits. This area is subject to discussion within the sector but the CIPFA example accounts do note that assuming that most key personnel identified will belong to the LGPS or other defined benefit pension schemes, disclosure of employer contributions payable in the period will not generally represent an accurate basis for estimating post-employment benefits. We are satisfied that readers will not be misled by the current disclosures but have discussed this with management as an area that will be kept under review. • Note 22 (Critical Judgements in Applying Accounting Policies and the Use of Estimates and Uncertainties) does not clearly distinguish between critical judgements and major sources source of estimation uncertainty. We do not agree that references to going concern, impairment risk, Border to Coast Pension Partnership or property leases should be included in this note as we do not believe critical judgments have been made or that there is material estimation uncertainty associated with these parts of the account. We have raised a recommendation in relation to this note in Appendix B. • Note 21 (Events after the Reporting Date) has been updated to ensure that it only captures events after the reporting date within the terms of IAS 10. • The total row in the table in Note 23 (Actuarial Position of the Fund) has been updated to reflect the net asset position of the Pension Scheme on both a Valuation Basis and IAS 19 Basis. • Some other minor changes were made throughout the financial statements to improve readability.

2. Financial Statements: other communication requirements

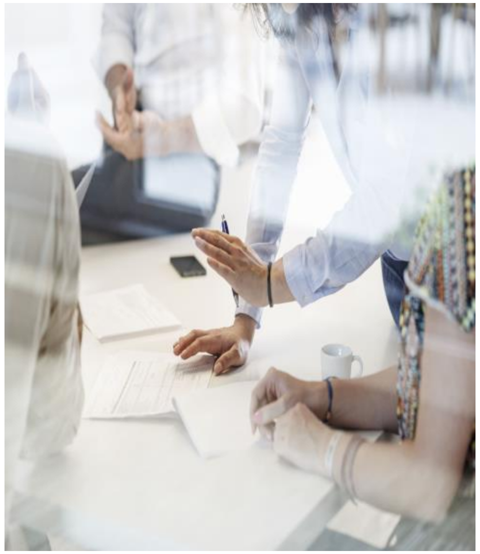
Our responsibility

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

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

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	The Pension Scheme is administered by Cumbria County Council (the 'Council'), and the Pension Scheme's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Scheme financial statements on which we give an opinion and is consistent with our knowledge of the Pension Scheme. No inconsistencies have been identified.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Scheme Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Scheme's Annual Report at the same time as our financial statements opinion. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.



3. Independence and ethics

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

In this context, we disclose that Gareth Kelly was serving his 7th year as Engagement Lead. Engagement leads typically serve for 5 years in their role with an audit client. This mitigates the perceived familiarity threat that comes from long associations with a client. The Ethical Standards identify three examples where flexibility may be necessary to safeguard the quality of the audit. One of these applies directly to the Pension Scheme's audit, namely the substantial change to the nature of the Pension Scheme and Administering Authority's business as a direct result of Local Government Re-organisation (LGR). The transition period leading up to the establishment of the new Council's represents a major change for the Scheme. During this period, it is vitally important for the quality of the audit that there is continuity at Engagement Lead level. Gareth knows and understands the Pension Scheme well, will understand the risks and will ensure that the audit focuses on the right areas. This extension was discussed and agreed with Public Sector Audit Appointments Ltd and our central ethics team.

As outlined on page 5 , John Farrar has assumed the Engagement Lead role on the audit due to Gareth Kelly's ongoing sickness absence. This mitigates the perceived familiarity threat described above. John has received a comprehensive briefing on the Pension Scheme and LGR and is supported by Richard Anderson as audit manager, who has fulfilled this role since 2018 and brings a detailed understanding of the Pension Scheme and LGR, thus ensuring audit quality is safeguarded.

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

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

Details of fees charged are in Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

3. 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 Pension Scheme. The following non-audit services were identified which were charged from the beginning of the financial year to the date of this report, as well as the threats to our independence and safeguards that have been applied to mitigate these . Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 Assurance letters for Admitted Bodies 2021/22	16,000	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 £16,000 in comparison to the total fee for the audit 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. We have not prepared the financial information on which our assurances will be used by the requesting auditor, thus mitigating any self-review threat. The Council has informed management, understand the operation of systems and can challenge our recommendations as appropriate, thus mitigating any management threat.
Non-audit Related			
None			

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

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Scheme that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Scheme held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Scheme as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Scheme.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Scheme's board, senior management or staff.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view.

Appendices

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 3 recommendations for the Pension Scheme as a result of issues identified during the course of our audit. We will agree our recommendations with management and will report on progress on these recommendations during the course of the 2023/ 24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium – Limited Effect on financial statements	**Accuracy of Membership Data** We have performed testing of the completeness and accuracy of source data used by the actuary in their triennial valuation liability calculation. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 25 members and identified 5 exceptions: • We identified 2 instances (1 dependent and 1 pensioner) where the date joined scheme was incorrect in the member data system. This did not impact the triennial valuation liability calculation as the underlying pension calculation in both instances used the correct scheme joining date. • We identified 2 instances (both pensioners) where an incorrect date of retirement was provided to the actuary. This did not impact the triennial valuation liability calculation as the underlying pension calculation in both instances used the correct date of retirement. • We identified 1 instance (pensioner) where the retirement date was recorded incorrectly in the member data system. This did not impact the triennial valuation liability calculation as the underlying pension calculation used the correct date of retirement. Whilst in these instances there has been no impact on the triennial valuation or financial statements, errors of this nature in member data do increase the risk of misstatement.	Work with the pension administration service provider to ensure that key membership data used in pension calculations and submitted to the actuary for the triennial valuation is accurate. **Management response** The Fund is currently engaged in dialogue with LPPA regarding the quality of service provision and this will extend to specifically address the findings of the audit. This will focus on the accuracy of the membership data and will also consider how the timeliness of responding to audit queries can be improved as identified in the Headlines section to this Audit Findings Report.
Medium – Limited Effect on financial statements	**Review of level 3 investment manager service auditor reports** Service auditor reports provide Management with assurances over the controls that operate at their level 3 investment managers relating to the valuation of these investments. Service auditor reports often include exceptions, which should be considered by Management for potential impacts on the Pension Scheme's financial statements. Our audit work on level 3 investments found only limited evidence of management review of service auditor reports. A comprehensive documented review of service auditor reports would provide further assurance over the valuation of these investments.	Introduce a formal, documented review of service auditor reports for all level 3 investment managers. **Management response** The Fund does currently review investment management audit reports and provide these with a RAG rating, however work will be undertaken to give further structure to these reviews to provide additional assurance over the valuation of Level 3 investments.

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
Medium – Limited Effect on financial statements	**Sources of estimation uncertainty and critical judgements** IAS 1 (Presentation of Financial Statements) requires that the Pension Scheme disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. The Pension Scheme is also required to disclose information about judgements, apart from those involving estimations, made in the process of applying it's accounting policies, that can significantly affect the amounts it recognises in the financial statements. In our view Note 22 (Critical Judgements in Applying Accounting Policies and the Use of Estimates and Uncertainties) does not clearly distinguish between critical judgements and major sources source of estimation uncertainty. Our view is that critical judgements and major sources source of estimation uncertainty should be clearly separated in this note. We do not agree that references to going concern, impairment risk, Border to Coast Pension Partnership or property leases should be included in this note as we do not believe critical judgments have been made or that there is material estimation uncertainty associated with these parts of the financial statements.	Ensure that Note 22 (Critical Judgements in Applying Accounting Policies and the Use of Estimates and Uncertainties) clearly distinguishes between critical judgements and major sources source of estimation uncertainty. Ensure that this note only includes: • References to major sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. • Critical judgements, apart from those involving estimations, made in the process of applying the Scheme's accounting policies, that can significantly affect the amounts it recognises in the financial statements. **Management response** The Fund acknowledges this recommendation and will consider how clarity in this area can be improved as part of the 2023/24 financial statements.
Medium – Limited Effect on financial statements	Our work on the Administering Authority's IT General Controls relating to E5 (General Ledger) identified that no review was performed of user and IT personnel access rights during the 2022/23 year. There was also no formal control for managing access rights for changing roles. Our audit work supports that other mitigating controls were in place for each of these systems and there is not a risk of material misstatement to the financial statements in relation to these issues. However we believe that controls could be strengthened by introducing a formal annual review of user and IT personal access rights and ensuring access rights to key systems are reviewed where an employee changes role.	Introduce a formal annual review of user and IT personal access rights to E5 (the general ledger). Ensure access rights are reviewed when an employee changes role (E5). **Management response**

C. Audit Adjustments

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

Impact of adjusted misstatements

Our audit work has not identified any adjusted misstatements.

Impact of unadjusted misstatements

Our audit work has not identified any unadjusted misstatements.

Impact of prior year unadjusted misstatements

Our prior year audit identified that the valuation in the financial statements for 9 investment managers was understated by £12.648 million, as the actual 31 March 2022 valuations had not been used. For the impacted investment managers, an estimate had been used for the 31 March 2022 position, using known cash movements, as the actual 31 March 2022 valuation was not available prior to submission of the draft accounts for audit. Management did not adjust for this issue on the grounds of materiality and this difference is reflected in the Pension Scheme's opening balance at 1 April 2022 This estimation difference has no impact on the closing balance at 31 March 2023, as new valuations have been provided for all investment managers.

Misclassification and disclosure changes

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

Area	Disclosure Change/ Issue	Adjusted?
Note 2.9 (Financial Assets)	Valuation policies in relation to market-quoted investments, fixed interest securities, delisted securities and long term assets have been removed on the basis that there were no such investments held by the Pension Scheme at 31 March 2023. Reference to 'loans and receivables' has also been updated to refer to 'financial assets measured at amortised cost' to ensure the terminology used is consistent with the requirements of IFRS 9.	✓
Note 10 F (Fair Value – Basis of Valuation)	The note has been updated to ensure the table does not include any investment types that are no longer held by the Pension Scheme. Descriptions of assets have also been updated for consistency with the other tables in Note 10 (Investment Assets).	✓
Note 8 (Management Expenses Additional Information)	Audit fees disclosed in Note 8 to financial statements are £31,000. There is a clearly trivial under accrual to the proposed audit fee. We have requested that Management include a footnote in Note 8, to disclose the proposed audit fee per our Audit Findings Report and that the additional expenditure will be accrued for in the 2023/24 financial statements	✓
Note 11 (a) (Classification of financial instruments carried at fair value)	Money market funds with a value of £67.971 million at 31 March 2022 and £73.219 million at 31 March 2023 were classified as held at amortised cost in the draft accounts. The Pension Scheme's business model is to hold these investments to collect contractual cash flows. However, the standard (IFRS 9) also requires that they are solely payment of principal and interest. The Pension Scheme accept that this test is not met and agreed that the correct classification is fair value through profit and loss. The note has been restated to disclose money market funds with a value of £67.971 million as held at fair value through profit and loss at 31 March 2022. Money market funds with a value of £73.219 million have also been reclassified as held at fair value through profit and loss at 31 March 2023 . The value of these assets has not been restated as there is a clearly trivial difference between measuring money market funds at amortised cost and fair value through profit and loss. A footnote has been added to the note to disclose "the nature of the prior period error".	✓

C. Audit Adjustments

Misclassification and disclosure changes (continued)

Area	Disclosure Change/ Issue	Adjusted?
Note 15 (Additional Voluntary Contributions)	The note has been updated to reflect additional voluntary contributions relating to Scottish Widows, Utmost life and Prudential Assurance Company. These amounts were not known at the time the accounts were submitted for audit.	✓
Note 18 (Contingent Assets)	This note does not refer to any material contingent assets and could be removed from the financial statements.	x
Note 21 (Events after the Reporting Date)	The note has been updated to ensure that it only captures events after the reporting date within the terms of IAS 10.	✓
Note 22 (Critical Judgements in Applying Accounting Policies and the Use of Estimates and Uncertainties)	The note does not clearly distinguish between critical judgements and major sources source of estimation uncertainty. We do not agree that references to going concern, impairment risk, Border to Coast Pension Partnership or property leases should be included in this note as we do not believe critical judgments have been made or that there is material estimation uncertainty associated with these parts of the financial statements. We have raised a recommendation in relation to this note in Appendix B.	x
Note 23 (Actuarial Position of the Fund)	The total row in the table has been updated to reflect the net asset position of the Pension Scheme on both a Valuation Basis and IAS 19 Basis.	✓

D. Fees and non-audit services

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

Audit fees	Proposed fee
Scale fee	£22,707
Lower Materiality	£1,875
Appointment of Auditor's Expert Property Valuer	£3,000
Increased audit requirements of revised ISAs*	£6,600
Increased audit requirements in relation to journals testing	£2,000
Increased audit requirements in relation to valuation of level 3 Investments	£2,000
Increased audit requirements in relation to direct property	£1,875
Quality review – response to FRC (Hot Review)	£1,500
Increased audit requirements in relation to derivatives	£750
Additional testing of member data analytical review – change in circumstances	£500
Implementation of new member data system and additional work required for business processes/understanding of controls*	£5,000
IAS 19 letters for employer body auditors, including testing of 31 March 2022 triennial review data*	£21,000
Total proposed audit fees 2022/23 per audit plan (excluding VAT)	*£68,807*
New Issues and Risks arising during final accounts audit	
Increased audit requirements in relation to derivatives (not required as the Pension Scheme did not hold any derivatives at 31 March 2023)	*-£750*
Delays in provision of information from LPPA	*£6,000*
Additional audit procedures in relation to errors in triennial valuation source data	*£3,000*
Total proposed audit fees 2022/23 per audit plan (excluding VAT)	*£77,057*

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

D. Fees and non-audit services

Non-audit fees for other services	Proposed fee
Audit Related Services	
IAS19 Assurance letters for Scheduled Bodies 2021/22	£16,000
Total non-audit fees (excluding VAT)	**£16,000**

Audit fees disclosed in Note 8 to financial statements are £31,000. There is a clearly trivial under accrual to the proposed audit fee per our Audit Plan. The fee in relation to IAS19 Assurance letters is not disclosed as a separate line in this note as these costs are re-charged by the Pension Scheme to other employer bodies. We have requested that Management include a footnote in Note 8, to disclose the proposed audit fee per our Audit Findings Report and that the additional expenditure will be accrued for in the 2023/24 financial statements.

None of the above services were provided on a contingent fee basis.

Grant Thornton UK LLP is also the auditor of Cumbria County Council. Audit fees and audit related services relating to Cumbria County Council are reported in the Cumbria County Council Audit Findings Report. Audit and audit related services provided to Cumbria County Council have no impact on our independence as auditor of Cumbria Local Government Pension Scheme.

This covers all services provided by us and our network to the Pension Scheme, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

E. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

F. Audit opinion

Our audit opinion is included below. We anticipate we will provide the Pension Scheme with an unmodified audit report.

Independent auditor's report to the members of Westmorland and Furness Council on the pension scheme financial statements of Cumbria Local Government Pension Scheme

Opinion on financial statements

We have audited the financial statements of Cumbria Local Government Pension Scheme (the ‘Pension Scheme’) administered by Westmorland and Furness Council (the ‘Authority’) for the year ended 31 March 2023, which comprise the Pension Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. 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 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Scheme during the year ended 31 March 2023 and of the amount and disposition at that date of the scheme’s assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

In our evaluation of the Director of Resources conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Pension Scheme’s financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Scheme. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Scheme financial statements and the disclosures in the Pension Scheme financial statements over the going concern period.

In auditing the financial statements, we have concluded that the Director of Resources use of the going concern basis of accounting in the preparation of the Pension Scheme financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Director of Resources with respect to going concern are described in the relevant sections of this report.

F. Audit opinion

Other information

The other information comprises the information included in the Annual Governance Statement and the Statement of Accounts, other than the Pension Scheme's financial statements and our auditor's report thereon, and our auditor's report on the Authority and group's financial statements. The Director of Resources is responsible for the other information. 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.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Scheme financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. 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.

Opinion on other matters required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Scheme's financial statements, the other information published together with the Pension Scheme's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the Pension Scheme 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 in relation to the Pension Scheme.

Responsibilities of the Authority and the Director of Resources

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, 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 Resources. The Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Scheme's 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 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Scheme's financial statements, the Director of Resources is responsible for assessing the Pension Scheme'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 they have been informed by the relevant national body of the intention to dissolve the Pension Scheme without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Scheme's 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. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

F. Audit opinion

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Scheme and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks, the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Public Service Pensions Act 2013, the Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016).

We enquired of management and the Audit Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Scheme's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to unusual journals with specific risk characteristics and large value journals and significant accounting estimates and critical judgements made by management. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on unusual journals with specific risk characteristics and large value journals;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments, directly held property and actuarial present value of promised retirement benefits; and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including the potential for fraud in revenue and expenditure recognition, and accounting estimates related to the valuation of level 3 investments, directly held property and actuarial present value of promised retirement benefits. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government pensions sector
- understanding of the legal and regulatory requirements specific to the Pension Scheme including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Scheme's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

F. Audit opinion

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.

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 44 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:

John Farar, Key Audit Partner

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

Manchester

Date:

F. Audit opinion

Independent auditor's statement to the members of Westmorland and Furness Council on the pension scheme financial statements of Cumbria Local Government Pension Scheme, included within the pension scheme annual report

Opinion

We have examined the pension scheme financial statements of Cumbria Local Government Pension Scheme (the 'pension scheme') for the year ended 31 March 2023 included within the pension scheme annual report, which comprise the Pension Fund Account, the Net Assets Statement, and the notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the pension scheme financial statements are consistent, in all material respects, with the audited financial statements of Cumbria County Council for the year ended 31 March 2023 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Respective responsibilities of the Director of Resources and the auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Resources is responsible for the preparation of the pension scheme's financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Our responsibility is to state to the members of Westmorland and Furness Council our opinion on the consistency of the pension scheme financial statements within the pension scheme annual report with the financial statements of Cumbria County Council.

We also read the other information contained in the pension scheme annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension scheme financial statements. The other information comprises the information included in the pension scheme annual report, other than the pension scheme financial statements and our auditor's statement thereon.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the financial statements of Cumbria County Council describes the basis of our opinion on those financial statements.

Use of this auditor's statement

This statement is made solely to the members of Westmorland and Furness Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Westmorland and Furness Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Westmorland and Furness Council and the members of Westmorland and Furness Council, as a body, for our work, for this statement, or for the opinions we have formed.

[Signature]

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

Manchester

[Date]

GrantThornton

grantthornton.co.uk