

# The Audit Findings for Lancashire County Pension Fund

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Year ended 31 March 2019

17 July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

## Financial Statements

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

- give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our final accounts audit work was completed on site during June and July 2019. Our findings are summarised on pages 4 to 14.

One adjustment was identified to the financial statements that impacted upon the primary financial statements. Pension Fund officers identified a £10.8 million change in the classification of the Fund Account between unrealised losses in market value and management expenses, with the net impact of the adjustment being nil.

All audit adjustments are detailed in Appendix B and other items adjusted relate to disclosure note changes only.

We have also raised one recommendation for management as a result of our audit work in Appendix A.

The financial statements were prepared to a good standard, with effective quality review arrangements in place. Working papers were available on time at the start of the audit, and prepared to a good standard. Responses to our samples and other queries were comprehensive and timely.

Our work is substantially complete and there are no matters of which we are aware at this stage that would require modification of our audit opinion, or material changes to the financial statements, subject to the resolution of the outstanding matters listed on page 4.

Our anticipated audit report opinion for the financial statements will be unmodified as set out at Appendix D.

## Annual Report

We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements

Our anticipated audit report opinion for the consistency of the financial statements within the Annual Report will be unmodified as set out at Appendix E.

## Acknowledgements

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

# Summary

## Overview of the scope of our audit

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

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.

## Audit approach

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

- an evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- controls testing of the Pension Fund's payment and members administration systems, and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you on 7 March 2019.

## Closedown arrangements

The financial statements were received on time, and published in advance of the statutory deadline on 23 May 2019. The financial statements were prepared to a good standard with embedded quality review processes in place. Working papers were available at the start of the audit and were detailed, and clear to understand. The responses to our audit samples and queries were comprehensive and timely.

Early work was undertaken by officers to review the new accounting standards introduced during 2018/19 for International Financial Reporting Standards (IFRS) 9 and 15, although there was minimal impact for the Pension Fund.

## Conclusion

We have substantially completed our audit of your financial statements and subject to the resolution of the outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 29 July 2019, as detailed in Appendix D.

These outstanding items include:

- receipt of the management representation letter;
- review of the final set of financial statements,
- review of the final Annual Report,
- review of the auditors assurance report for the McCloud actuarial adjustments,
- final review of the audit file the Review Partner;
- on-going work on some minor disclosure notes to complete;
- receipt and review of one investment manager confirmation and some controls reports, and
- updating our post balance sheet review to the date of the audit opinion.

# Summary

## Our approach to materiality

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

Materiality calculations have increased compared to those reported in our audit plan due to the increase in net assets at 31 March 2019.  
We detail in the table below our determination of materiality for Lancashire County Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	84,101,000	<ul style="list-style-type: none"><li>• This equates to 1% of your net assets at 31 March 2019, and is considered to be the level above which users of the financial statements would wish to be aware in the context of overall expenditure.</li></ul>
Performance materiality	63,080,000	<ul style="list-style-type: none"><li>• Assessed to be 75% of financial statement materiality</li></ul>
Trivial matters	4,205,000	<ul style="list-style-type: none"><li>• This equates to 5% of financial statement materiality</li></ul>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1 Revenue recognition – the risk of revenue including fraudulent transactions</b></p> <p>Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p><b>Auditor commentary</b></p> <p>There are no changes to our assessment reported in our audit plan that this risk can be rebutted.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Lancashire County Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p>Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund.</p>
<p><b>2 Management override of controls</b></p> <p>Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor.</p> <p>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.</p>	<p><b>Auditor commentary</b></p> <p>We carried out the following work:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Our audit work has not identified any instances of management override of controls.</p> <p>A recommendation is made in the Action Plan at Appendix A to strengthen existing journal authorisation processes.</p>

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of Level 3 investments</b></p> <p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>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 and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p><b>Auditor commentary</b></p> <p>We carried out the following work:</p> <ul style="list-style-type: none"> <li>evaluated management's processes for valuing Level 3 investments;</li> <li>reviewed the nature and basis of estimated values and consider 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;</li> <li>for a sample of investments, test the valuation 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. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period and;</li> <li>in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert.</li> </ul> <p>Our audit work to date has not identified any issues in respect of the risks relating to the valuation of Level 3 investments at year end.</p> <p>Our work is ongoing in this area as one level 3 confirmation is currently outstanding.</p>

# Going concern

### Our responsibility

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

### Going concern commentary

#### Management's assessment process

The Pension Fund has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists. They have considered the Fund's overall funding position and any communications with the relevant Department and Secretary of State.

#### Auditor commentary

- The Pension Fund's use of the going the concern basis of accounting is appropriate.
- The Pension Fund's assessment of going concern was communicated to us by the Chair of the Audit, Risk and Governance Committee's letter dated 20 May 2019.
- The last triennial valuation, as at 31 March 2016 reported a funding level of 90%.

#### Work performed

Reviewed management's assessment of going concern and the assumptions and supporting information.

#### Auditor commentary

- No material uncertainty is identified.
- There are sufficient assets to meet the liabilities as they fall due. The last triennial valuation, as at 31 March 2016 reported a funding level of 90%.
- The Pension Fund continues to operate as usual with contributions and investment income being received and benefits being paid.

#### Concluding comments

The Pension Fund's use of going concern basis of accounting is appropriate.

#### Auditor commentary

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



# Significant findings - other issues

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



Issue	Commentary
<div data-bbox="64 525 99 558">1</div> <div data-bbox="171 518 401 544"><b>McCloud judgement</b></div> <div data-bbox="171 558 994 639"><p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p></div> <div data-bbox="171 654 994 735"><p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p></div> <div data-bbox="171 749 994 831"><p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p></div> <div data-bbox="171 845 994 926"><p>Discussion has been ongoing through June and July in the sector regarding the impact of the ruling on the financial statements of Local Government bodies and Pension Funds.</p></div>	<div data-bbox="1021 518 1255 544"><b>Auditor commentary</b></div> <div data-bbox="1021 558 1912 1015"><ul style="list-style-type: none"><li>• The Pension Fund has reviewed their judgements and treatment of the McCloud legal ruling, as the promised benefits note in the draft financial statements did not include the impact of the case in the promised benefit figures provided by the Actuary. With the Government having been denied leave to appeal the ruling in June 2019, the Pension Fund's view was updated as it is now probable that the McCloud judgement impacted upon the calculations as at 31 March 2019.</li><li>• The Pension Fund requested the Actuary to perform a review of the impact of the McCloud case and the figures changed the promised benefits disclosure note by increasing the promised benefits by £64 million. Additional narrative disclosure was also added.</li><li>• We have confirmed that the figures from the Actuary have accurately been reflected within the final set of financial statements.</li><li>• We are reviewing work from our internal actuaries to provide us with assurance over the assumptions and methods employed by Mercers in compiling the McCloud promised benefits estimates.</li></ul></div>

# Significant findings – matters discussed with management





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

	Significant matter	Commentary
1	Significant events or transactions that occurred during the year	<ul style="list-style-type: none"> <li>The implementation of new accounting standards IFRS9 and IFRS15 from 1 April 2018 were discussed with officers during 2018/19. The impact of the new accounting standards were minimal to the Pension Fund and are adequately disclosed within the financial statements.</li> <li>The impact of Brexit was discussed with officers during the year and will form part of our enquiries for future years when the position is more certain.</li> </ul>
2	Business conditions affecting the Pension Fund, and business plans and strategies that may affect the risks of material misstatement	<ul style="list-style-type: none"> <li>No such issues were identified.</li> </ul>
3	Concerns about management's consultations with other accountants on accounting or auditing matters	<ul style="list-style-type: none"> <li>No such issues were identified.</li> </ul>
4	Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services	<ul style="list-style-type: none"> <li>We were re-appointed as auditors of Lancashire County Council and Lancashire County Pension Fund for five years from 2018/19. We issued our fee letter for 2018/19 on the 20 April 2018 and presented this to the Audit , Risk and Governance Committee on 30 July 2018.</li> <li>We issued our 2018/19 Audit Plan on 27 February 2019 and presented this to the Audit, Risk and Governance Committee on 20 May 2019.</li> </ul>
5	Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information	<ul style="list-style-type: none"> <li>No such issues were identified.</li> </ul>
6	Other matters that are significant to the oversight of the financial reporting process	<ul style="list-style-type: none"> <li>No such issues were identified.</li> </ul>
7	Internal Control matters	<ul style="list-style-type: none"> <li>The Pensions Committee receive updates with a summary of the outcomes of internal audit reports at Local Pensions Partnership (LPP). The 2018/19 program of work at LPP reported mixed assurance levels with an 'ineffective' rating for reports in benefits administration, cyber security and investments' legal and regulatory compliance. The position has been reflected in the Lancashire County Pension Fund Annual Governance Statement.</li> </ul>

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Level 3 investments</b>	The Pension Fund has investments in pooled property investments, private equity, long term credit and infrastructure investments that in total are valued on the balance sheet as at 31 March 2019 at £3.409 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 rely on the valuations provided by the funds which the Fund invests in. The value of the investments has increased by £193 million in 2018/19, largely due to acquisitions and improvements in market conditions.	<p>Management determine the value of Level 3 Investments through placing reliance on the expertise of the funds and investment managers. As such we have sought confirmations of year end valuations. We have also tested a sample of level 3 investments to audited accounts to determine if the values are estimated that they are reasonable.</p> <p>We have found no issues to date with this testing and are satisfied that the estimates are appropriately disclosed in the accounts.</p> <p>Note that our work on level 3 investments is still ongoing as not all investment confirmation requests have been received. This is being followed up as a matter of importance.</p>	
<b>Level 2 investments</b>	The Pension Fund have investments in corporate and overseas government bonds and direct property holdings that in total are valued on the balance sheet as at 31 March 2019 at £761.9 million. 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 and engage the services of a property valuer for direct property.	<p>Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers and a property valuer. As such we have sought confirmations of year end valuations. We have also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where they are not quoted, to unit values provided by the investment manager's own independent custodian.</p> <p>We have found no issues with this testing and are satisfied that the estimates are appropriately disclosed in the accounts.</p>	

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

# Other communication requirements

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

	Issue	Commentary
1	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit, Risk and Governance Committee. We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
3	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested from the Pension Fund. The draft letter of representation is included as an agenda item at the Audit, Risk and Governance Committee meeting on 29 July 2019.</li> </ul>
5	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to Fund Managers, the Custodian, valuers and your bank for your cash balances (outside of the cash held by your fund managers).</li> <li>We are still awaiting responses to some of our requests.</li> </ul>

# Other communication requirements

	Issue	Commentary
6	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>• Our review found no material omissions in the financial statements.</li> </ul>
7	<b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>• All information and explanations requested from management was provided.</li> <li>• The financial statements were received on time, and published one week in advance of the statutory deadline.</li> <li>• The financial statements were prepared to a good standard with embedded quality review processes in place.</li> <li>• Working papers were available at the start of the audit and were detailed, and clear to understand.</li> <li>• The responses to our audit samples and queries were comprehensive and timely.</li> </ul>
8	<b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>• We are required to give a separate opinion for the Pension Fund 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 Funds Annual Report on the day we issue the financial statements opinion.</li> <li>• The Pension Fund Annual Report is produced by the Pension Fund by July, and therefore we can carry out the work to check the consistency of the Annual Report with the audited financial statements. Note that the statutory deadlines for the Pension Fund Annual Report to be published is not until the 1<sup>st</sup> December 2019, therefore producing the Annual Report early enables the separate opinion for the Annual Report to be given at the same time as the financial statements opinion.</li> </ul>

# Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

## Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
<b>Non-audit related</b>			
IAS19 assurance procedures for other bodies admitted to the pension fund	9,000	Self-Interest (because this is a recurring fee)	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 £9,000 in comparison to the total fee for the audit of £26,310 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.


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




For completeness we are reporting to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes. However we are satisfied that this work has no impact on our independence for the audit of Lancashire County Pension Fund for the reasons mentioned below.

Service	£	Threats	Safeguards
<b>Audit related</b>			
Local Pensions Partnership	Not yet confirmed	Self Review	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. These are different Engagement Leads in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work.
Authorised Contractual Scheme and investment funds structures audit			

# Action plan

We have identified one recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2019/20 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1 	<ul style="list-style-type: none"><li>Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input.</li><li>The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation.</li></ul>	<ul style="list-style-type: none"><li>Review the authorisation procedures in place over journal input.</li></ul> <p><b>Management response</b></p> <p>Personnel based controls are in place, with only finance staff able to post journals. As such, the need for secondary authorisation is considered to be very low. There is also no incentive for finance personnel to manipulate journals.</p>

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

# 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

The one adjusted misstatement is set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail		Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
1	For consistency with pooling disclosures to be made in the Annual Report of the Fund, Pension Fund officers identified additional investment management expenses of £10.8 million for the year to 31 March 2019 following receipt of fee information for the final quarter of the financial year from the Local Pensions Partnership.	-10,800		
		+10,800		
The increase in management expenses recognises costs that are embedded in the market value of investments, rather than directly invoiced to the Fund. This adjustment is in classification only and has a net impact of nil on the primary statements as it is a reclassification between an unrealised loss in market value and investment and management expenses within the Fund Account.				
Overall impact		£0	£0	£0



# Audit Adjustments

## 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.

Disclosure area	Detail	Adjusted?
<b>Annual Governance Statement</b>	Minor changes were identified by Pension officers and as part of the audit to the Annual Governance Statement. This was due to the passage of time to update and include information relevant from June and July.	✓
<b>Note 13 – Investments analysed by Manager</b>	The analysis of investments by manager with the LPPI Private Equity Fund was updated for the split between HG Capital and HGGC. The investment value of HG Capital was reduced by £67.6 million from £80.8 million to £13.2 million. The investment value of HGGC was increased by £67.6 million from £ nil to £67.6 million. There was no impact on sub-totals or the overall total within this disclosure note.	✓
<b>Note 13 – operating leases</b>	The future value of minimum lease payments receivable under non-cancellable leases has been reduced by a credit allowance of 2.1% per annum, reflecting the Fund's expected loss from late or non-recovery of rents from tenants. The value of the adjustment is £5.4m as at 31 March 2019 and £4.9m as at 31 March 2018. This adjustment complies with section 7.2.9 of the Code which is a new requirement to recognise a credit allowance based on expected future losses, not as and when there is objective evidence of a loss having occurred. The information required from the Fund's property manager to calculate this adjustment was not available at the time of signing the draft financial statements.	✓
<b>Note 25 – Actuarial present value of promised retirement benefits for the purpose of IAS 26</b>	<p>The Council reviewed their judgements and accounting treatment for the McCloud legal ruling, as the draft financial statements did not include at that time the impact of the case in the promised benefits figures provided by the Actuary. With the permission to appeal being unsuccessful in June 2019, the Pension Fund officer's view was updated as it was more probable that the McCloud judgement impacted upon the promised benefits calculations as at 31 March 2019.</p> <p>The Council requested the Actuary to perform a review of the impact of the McCloud case and the figures changed in the promised benefits note to increase the figure by £64 million from £10,923 million to £10,987 million.</p>	✓
<b>Presentation and consistency</b>	A small number of minor changes have been made to the wording and presentation of existing disclosure notes in the financial statements to improve their clarity and consistency. None of them are significant to warrant disclosing separately.	✓

# Audit Unadjusted misstatements

## **Impact of unadjusted misstatements**

There are no unadjusted misstatements identified as part of the 2018/19 audit.

## **Impact of prior year unadjusted misstatements**

There were no unadjusted misstatements identified as part of the 2017/18 audit.

# Fees

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

## Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£26,310	£27.810*
Total audit fees (excluding VAT)	£26,310	£27,810

\* Additional work was undertaken due to a national accounting issue that impacted the Pension Fund, and required additional audit time to be spent on the work carried out for the promised benefits disclosure note. The £1,500 will be subject to PSAA approval, and this will be submit to PSAA at a future date.

## Non Audit Fees

Fees for other services	Fees £'000
Non Audit related services:	£9,000 *
• IAS19 Assurance letters to other auditors	
	£9,000

\* The IAS19 fee is for our responsibilities in providing written assurances to auditors for eighteen bodies within the Public Sector Audit Appointments (PSAA) regime on controls over information provided by the Pension Fund to the actuary.

Note that any changes to fee are required to be approved by PSAA, and this has not yet been completed. The fee for this work is increased in 2018/19 from the historic level charged in 2017/18 and prior of £1,737 to recognise the work involved to carry out the testing to provide the assurance for eighteen separate bodies. The charge for 2018/19 is at £500 per request.

# Draft proposed audit opinion on the financial statements

We anticipate we will provide the Pension Fund with an unmodified audit report on the financial statements

## Independent auditor's report to the members of Lancashire County Council on the pension fund financial statements of Lancashire County Pension Fund

### Opinion

We have audited the financial statements of Lancashire County Pension Fund (the 'pension fund') administered by Lancashire County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund'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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

### Other information

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

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund 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 pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# Draft proposed audit opinion on the financial statements

## Opinion on other matter required by the Code of Audit Practice 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 fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

## Matters on which we are required to report by exception

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

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

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

## Responsibilities of the Authority, the Chief Executive and Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 22, 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 Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund'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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and 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 fund's financial statements, the Chief Executive and Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

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

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund'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.

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](http://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 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and

# Draft proposed audit opinion on the financial statements

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.

*To be signed*

Robin Baker, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
  
Liverpool

**To be dated**

# Draft proposed audit opinion on the Annual Report

We anticipate we will provide the Pension Fund with an unmodified audit report on the Annual Report

## Independent auditor’s report to the members of Lancashire County Council on the consistency of the pension fund financial statements of Lancashire County Pension Fund included in the Pension Fund Annual Report

### Opinion

The pension fund financial statements of Lancashire County Pension Fund (the ‘pension fund’) administered by Lancashire County Council (the "Authority") for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2019 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19 and applicable law.

### Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor’s report thereon is not a substitute for reading the audited Statement of Accounts and the auditor’s report thereon.

### The audited financial statements and our Report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated xx July 2019.

## Section 151 Officer responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Section 151 Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

### Auditor’s responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our 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.

### To be signed

Robin Baker, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

### To be dated

