

# The Audit Findings for Lancashire County Pension Fund

Year ended 31 March 2022

18 January 2023



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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 Fund 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.

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# 1. 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 2022 for those charged with governance.

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## Financial Statements

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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 audit work was completed on remotely during July-November. Our findings are summarised on pages 4 to 17. There has no adjustments to the financial statements that have resulted in adjustment to the Pension Fund's reported financial position. Adjusted and Unadjusted audit misstatements, disclosure amendments and misclassification errors are detailed in Appendix B. We have not raised any new recommendations for management as a result of our audit work. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

We have essentially completed our audit of the Pension Fund. We are just awaiting confirmation of the timing of the audit sign off for the administering authority so that we can ensure our subsequent events procedures cover the period up to the point of sign off. There are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements. This position is subject to the completion of the final standard items below;

- Receipt of signed management representation letter
- Review subsequent events up to point of audit sign off
- 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 your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

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# 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 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;
- 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 had to alter our audit plan, which was communicated to you at the Audit, Risk & Governance Committee meeting on 25 April 2022, to add an additional significant risk as a result of the reclassification of directly held investment property from level 2 to level 3 in the Fair Value Hierarchy. See page 8 for further details.

## Conclusion

We have essentially completed our audit of the Pension Fund. We are just awaiting confirmation of the timing of the audit sign off for the administering authority so that we can ensure our subsequent events procedures cover the period up to the point of sign off. There are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements. This position is subject to the completion of the final standard items below;

- Receipt of signed management representation letter
- Review subsequent events up to point of audit sign off
- 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 your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unqualified.

## Acknowledgements

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

# 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.

Materiality levels remain the same as reported in our audit plan, which was presented to the Audit, Risk & Governance Committee on 25 April 2022.

We detail in the table below our determination of materiality for Lancashire County Pension Fund.

### Pension Fund Amount (£m) Qualitative factors considered

Materiality for the financial statements	105.317	We have determined materiality for the audit to be £105.317m (equivalent to 1% of net assets for the prior year). This is in line with the industry standard and reflects the risks associated with the Fund's financial performance.
Performance materiality	78.987	Performance materiality drives the extent of our testing and this was set at 75% of financial statement materiality. Our consideration of performance materiality is based upon a number of factors: <ul style="list-style-type: none"> <li>• We are not aware of a history of deficiencies in the control environment</li> <li>• There has not historically been a large number or significant misstatements arising; and</li> <li>• Senior management and key reporting personnel has remained stable from the prior year audit</li> </ul>
Trivial matters	5.265	This equates to 5% of materiality. This is our reporting threshold to the Audit, Risk & Governance Committee for any errors identified.



## 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 Fund faces external scrutiny of its spending and stewardship of funds 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.

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 made by management and considered their reasonableness with regard to corroborative evidence
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our testing of journals posted by management during the year, and other procedures stated above, did not identify any issues in respect of management override of controls.

As with previous years, the Fund does not have authorisation controls in place over journals – refer to page 17 for further details.



# 2. Financial Statements - Significant risks

## Risks identified in our Audit Plan

## Commentary

### 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 Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Lancashire County Council mean that all forms of fraud are seen as unacceptable

Therefore, we do not consider this to be a significant risk for Lancashire County Pension Fund.

### Valuation of Level 3 Investments

The Fund 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 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 2022.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

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 requested year-end confirmations from investment managers
- for a sample of investments, tested 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. Reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period and
- in the absence of available audited accounts, we have evaluated the competence, capabilities and objectivity of the valuation expert
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's financial records
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile.

From the work which we have performed, the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £33.7m. This amount is below performance materiality. As this is a factual difference it has been included in Appendix B as an unadjusted misstatement.

# 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
<p><b>New significant risk – Valuation of Directly Held Investment Property (Level 3)</b></p> <ul style="list-style-type: none"> <li>As part of our response to the assessed risk of the valuation of investments held by the pension fund, we challenged management on the classification of all investments within the Fair Value Hierarchy for their appropriateness, in line with the requirements of IFRS 13.</li> <li>Historically, Directly Held Investment Property has been classified as a level 2 investment at Lancashire County Pension Fund. On this basis we did not initially categorise the valuation of this balance as a significant risk.</li> <li>In our view, the key inputs into the valuation of the investment properties such as market yields and rental tenancy information, is not “observable” as per IFRS 13 and as such these items should be classified as Level 3 investments. Classification as level 3 is consistent with other similar bodies and also with the classification the administering authority applied to it’s investment properties within the Group Accounts.</li> <li>Management agreed to amend the classification for 2021-22 and also for the prior period comparator.</li> </ul>	<p>As a result of the change in classification we reconsidered our audit approach and deemed it appropriate to amend our audit plan to reflect this balance as a significant risk due to the unobservable inputs into the valuation approach.</p> <p>The Fund revalues its directly held property on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due the sensitivity of this estimate to changes in key assumptions.</p> <p>Management engaged the services of a valuer to estimate the current value as at 31 March 2022.</p> <p>We therefore identified valuation of directly held property, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> <li>evaluated the processes and controls in place which relate to the valuation of directly held investment property and updated our audit approach scoping for the assessed risk.</li> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>written out to them and discussed with the valuer the basis on which the valuation was carried out</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding</li> <li>tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund’s financial records</li> <li>where available reviewed investment manager service auditor report on design effectiveness of internal controls.</li> </ul> <p><b>Our audit work on the valuation of directly held property did not identify any significant issues or misstatements. Sufficient, appropriate assurance was gained over this balance.</b></p>
<p><b>Control Issue – Management Review of Service Auditor Reports</b></p> <p>As part of our testing of investments we request service auditor control reports to assess the controls in operation at the custodian and fund managers used by the Pension Fund. We also ask management for their review and assessment of the reports to demonstrate they have considered any control findings.</p>	<p>Management have stated that LPPI perform the review of service auditor reports on their behalf, however LPPI were not willing to disclose the results of this review to us under their confidentiality restrictions.</p>	<p>We have performed our own review of a sample of control reports, where available and no significant issues were identified. However, it is best practice for management to complete their own review and, for the reasons outlined to the left, we are unable to confirm if this was performed during the year or not. In our view the review of reports should be documented by LPPI and shared with management so they are informed of any control weaknesses.</p>



# 2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management’s approach	Audit Comments	Assessment
<p>Level 3 Investments – £4,955m (per amended accounts)</p>	<p>The Pension Fund has investments in unquoted equity, pooled property investments and pooled investments that in total are valued on the Net Asset Statement as at 31 March 2022 at £3,838m (per the draft accounts).</p> <p>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 general partners to the private equity funds which the Fund invests in.</p> <p>The value of the investments per the draft accounts, before reclassifications, increased by £254m in 2021-22, largely due to significant positive changes in the market value of the investments, primarily as a result of the markets continuing to regain lost growth as a result of the Covid-19 Pandemic in prior years. However, the majority of this growth was attained in the first three quarters of the year with the impact of the Russian invasion of Ukraine impacting markets as at 31 March 2022 and reducing growth.</p>	<p>Management determine the values of level 3 investments through placing reliance on the expertise of investment managers.</p> <p>We have also tested a sample of level 3 investments to audited accounts to determine if the values estimated are reasonable and within our acceptable tolerances based on our expectation derived from the audited accounts.</p> <p>Management has disclosed, within Note 5 of the accounts, the uncertainty related to level 3 investments (absolute return funds and private equity) as well as providing a supporting sensitivity analysis within Note 17 to allow the reader to understand the potential impact on the accounts should the value of those estimates change.</p> <p>Per the Fund’s accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile.</p> <p>From the work which we have performed, the difference between the valuation of investments per the Fund’s accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £33.7m. This amount is below performance materiality. As this is a factual difference it has been included in Appendix B as an unadjusted misstatement.</p> <p>The accounts have been amended to reflect reclassification of some investments as a result of our audit challenge. LPPI Real Estate ACS from level 2 to level 3 - £944.6m – in line with direct property above and the underlying assets are also classified as level 3 in LPPI’s accounts.</p>	<p>Light Purple</p>

**Assessment**

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

# 2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments - £449m (per amended accounts)	<p>The Pension Fund have investments in corporate and overseas government bonds, LA loans and pooled investments that in total are valued on the Net Asset Statement as at 31 March 2022 at £449m.</p> <p>The investments can not be easily reconciled to valuations recorded on an open exchange / market as the valuation of the investments involves some subjectivity. In order to determine the value, management rely on the information which they are given from the various fund managers.</p> <p>The draft accounts included £945m of level 2 pooled property investments in relation to the LPPI Real Estate Fund and £172m of directly held property. On review and challenge of the classification, based on the inputs in to the calculation and how LPPI classify the balance, the £945m LPPI Real Estate Fund and the £172m directly held property has been reclassified as level 3 investments.</p>	<p>Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers.</p> <p>As such we have sought confirmations of year end valuations from all main mandate managers and also obtained the audited accounts prepared for the LPPI fixed income fund to use as a basis to compare the valuation in the pension funds accounts to the valuation per the audited accounts of LPPI.</p> <p>We also obtained direct confirmations of balances outstanding from each of the local authority short term loans.</p> <p>No issues were identified from the work which we performed.</p>	Light Purple

## 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
Directly held investment Property – Level 3 - £172m	<p>The Pension Fund has investments in directly held investment properties that in total are valued on the Net Asset Statement as at 31 March 2022 at £172m. As per page 8 of our report, this balance was reclassified to level 3 during the audit.</p> <p>In order to determine the value, management engage independent RICs qualified valuers, Avison Young, to calculate the fair value of the properties on the basis of their Market Value. All of the properties held by the Fund were valued as at 31/3/22.</p> <p>The value of the investments have increased by £12m in 2021/22, this was largely as a result of increases in the fair value of the properties on revaluation as at 31/3/22.</p>	<p>Management determine the value of Level 3 direct property investments through placing reliance on the expertise of the property valuer.</p> <p>As such we have sought confirmations of year end valuations from the valuer as well as corresponding with them to understand and assess their skills, competence and independence from the Fund in valuing the investment properties. We have also evaluated the assumptions used in the calculation of the estimate as well as the source evidence they relied upon.</p> <p>We compared movements in individual asset values to movements in market indices and challenged management on any movements which were outside of our expected range.</p> <p>We did not identify any issues with the approach or assumptions adopted by the Fund's external property valuer.</p>	Light Purple

## Assessment

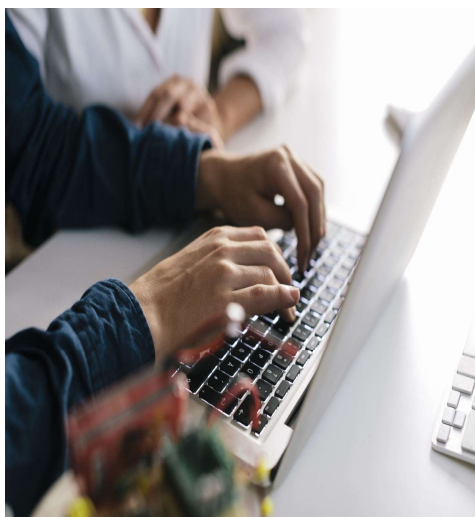
- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we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

## 2. Financial Statements - other communication requirements

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

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit, Risk & Governance Committee and Pension Fund 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. We note that no declaration of interest was received for 3 members. We are however satisfied that the fund has appropriate procedures in place to obtain and monitor declarations.
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 Fund. It will be included as a separate item in the Audit, Risk & Governance Committee papers at the January 2023 Meeting. We have requested specific representations from management in relation to the completeness and accuracy of the prior period adjustment to reflect the reclassification of assets, as outlined in appendix B.

## 2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested direct confirmations from the Fund's bankers and custodian and plus a sample of managers of level 3 investments. We have received all confirmations requested.
Accounting practices	<p>We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.</p> <p>For key management personnel we have noted that the Fund 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 with management and this is an area that will be kept under review.</p>
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management, to date, has been provided. We note that management provided us with a set of draft financial statements on 8 June 2022, which is over 6 weeks in advance of the national deadline for preparing accounts.

# 2. Financial Statements - other communication requirements



## Our responsibility

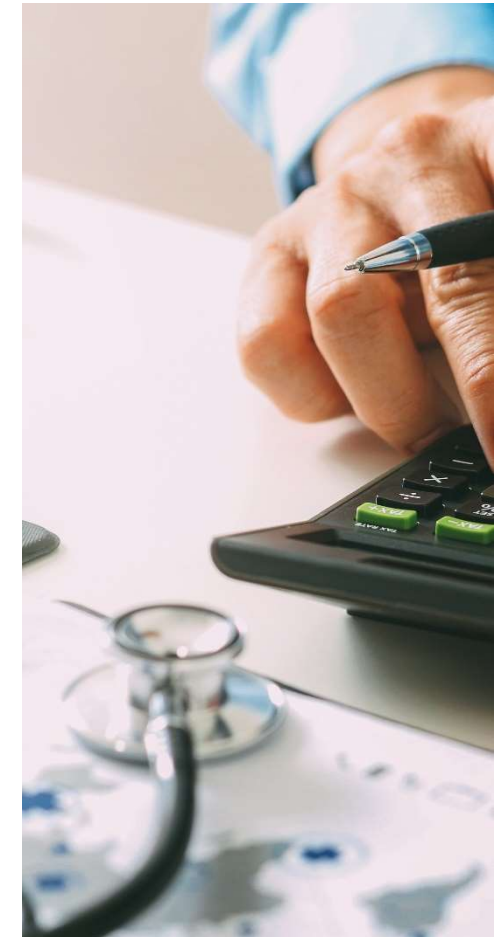
As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management’s use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity’s ability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

Issue	Commentary
Going concern	<p>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:</p> <ul style="list-style-type: none"><li>• 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</li><li>• 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.</li></ul> <p>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 Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"><li>• the nature of the Pension Fund and the environment in which it operates</li><li>• the Pension Fund’s financial reporting framework</li><li>• the Pension Fund’s system of internal control for identifying events or conditions relevant to going concern</li><li>• management’s going concern assessment.</li></ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"><li>• a material uncertainty related to going concern has not been identified</li><li>• management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li></ul>



## 2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D.
Matters on which we report by exception	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 Fund’s Annual Report with the opinion on the accounts.



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# 3. 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

Details of fees charged are detailed in Appendix C.

## Transparency

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

# 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 Fund. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 procedures for other bodies admitted to the pension fund	£23,000 (£5,000 base Fee plus £1,000 for each set of audit procedures - 18 Expected)	Self-Interest (because this is a recurring fee)  Self-review  Management	The fee for this work is recurring but not significant compared to the audit of the financial statements of £37,423 and in particular relative to Grant Thornton UK LLP's turnover overall. The fee is fixed based on the number of admitted bodies. Further, the work is on audit related services and integrated with the testing undertaken as part of the audit.  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. Any decisions whether to change controls over, or edits required to, financial information arising from our findings will be a matter for informed management  We may make recommendations to the Pension Fund in respect of control weaknesses, in the same way as we would in an audit of financial statements. Informed management understand the operation of systems and can challenge our recommendations as appropriate.
Non-audit Related			
None			

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 the Audit, Risk & Governance Committee. None of the services provided are subject to contingent fees.

# Appendices

# A. Follow up of prior year recommendations

We reported the following issues in the audit of the Pension Fund's 2020/21 financial statements, which resulted in one recommendation being reported in our 2020/21 Audit Findings report. The same issue was identified during our audit this year.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	<p><b>Issue and Risk</b></p> <p>Manual journals within the financial ledger system are input by approved personnel, but they are not subject to separate authorisation controls by a second staff member at the time of input.</p> <p>The risk is that the absence of authorisation controls at the time of input creates a higher risk of error or manipulation.</p> <p><b>Recommendation</b></p> <p>Review the authorisation procedures in place over journal input.</p>	<p><b>Management Response</b></p> <p>The same personnel-based controls remain in place at the Council, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept that there are no preventative controls in place, there are informal detective controls in place, such as monthly reconciliations to the custodian report and quarterly reviews, that would identify errors caused by journals. Any journals for unusual accounting are discussed amongst the finance team and the approach agreed prior to them being posted. A review of users with access to the pension fund general ledger (and therefore the ability to post journals) is carried out at least annually.</p> <p><b>Audit Response</b></p> <p>As users with access to Oracle can post and approve their own journals, this is required to be recognised as a control deficiency and we have assessed the journals control environment as “medium” risk. Whilst the deficiency exists with the Fund’s system, the low number of manual journals posted as well as the limited number of journal posters and that the majority of journals relate to investment postings which can be traced to custodian/fund manager records, the impact of the deficiency in the context of the risk of management override of controls, is reduced.</p>

## Assessment

- ✓ Action completed
- x Not yet addressed

# B. 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

No adjusted misstatements have been identified to date.

## 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 omission	Auditor recommendations	Adjusted?
<p><b>Fair Value Classification of Financial Assets</b></p> <p>Our testing of investment assets identified a small number of instances where the classification of the assets under the IFRS 13 hierarchy did not appear correct.</p> <ul style="list-style-type: none"><li>- £25.6m of cash held in bank accounts classified as level 2 but is more appropriate as level 1 classification as cash equivalents.</li><li>- Direct property reclassified from level 2 to level 3 - £172.1m – on the basis of the key inputs into the valuation calculation</li><li>- LPPI Real Estate ACS from level 2 to level 3 - £944.6m – in line with direct property above and this balance is also classified as level 3 in LPPI’s accounts.</li><li>- LPPI Fixed Income from level 1 to level 2 - £398.6m – this investment includes investments in pooled funds and not all items are directly agreeable to an active market/easily observable to justify a level 1 classification.</li></ul>	The final version of accounts to be amended for these matters.	✓
<p><b>Presentation/Disclosure Changes</b></p> <p>A number of minor amendments have been suggested to management from our financial statements presentation and internal consistency review.</p>	The final version of accounts to be amended for these matters.	✓
<p><b>Investment Manager Fees</b></p> <p>Testing of investment manager fees identified that performance related fees can often be difficult to accrue for due to the cost being linked to performance benchmarked and difficult to quantify until the invoice is received. Our testing identified that the 2021-22 investment management fees per the draft accounts includes £38m of fees relating to 2020-21 and that £4m of fees relating to 2021-22 are recorded in 2022-23’s accounts.</p>	The accounts have not been amended for these balances as the figures are below our materiality levels and the prior year accounts were prepared with the available information at the time, as per IAS 8, since this is below materiality it should not necessitate a Prior Period Adjustment, but be corrected for in year. The 2021-22 element accounted for in 2022-23 is below our triviality level.	X

## Impact of prior year unadjusted misstatements

There were no adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements



# B. Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit, Risk & Governance Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Per the Fund's accounting policies, year end values for hard to value assets frequently contain 31 December values adjusted for cash for inclusion in the draft financial statements. As part of our response to the valuation risk the valuation of the level 3 investments is assessed by the auditor to ensure that the carrying value per the financial statements is not materially different from the fair value as at the 31 March 2022, which we obtain via external confirmation from the external fund managers. We would typically expect to see a number of small variances as a result of this, usually netting out to a relatively small variance. In recent years as a result of Brexit and Covid, these movements have been more volatile. From the work which we have performed to date the difference between the valuation of investments per the Fund's accounts and that per the externally obtained investment confirmations as at 31 March 2022 is £33.7m. This amount is below performance materiality, however, we are still finalising our work on this area. We are still finalising our work on the review of the investment confirmations, audited accounts and service auditor reports received.	£33.7m	£33.7m	£33.7m	Below Performance Materiality
Overall impact	£33.7m	£33.7m	£33.7m	

# C. Fees

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

<b>Audit fees</b>	<b>Proposed fee</b>	<b>Final fee</b>
Pension Fund Audit	£37,423	£37,423
Total audit fees (excluding VAT)	£37,423	£37,423

Audit Fees per the draft financial statements is £39,300 for the audit of the accounts and £9,500 for IAS 19 assurance. The audit fee per the accounts was based on the actual fees charged for the 2020-21 Audit.

The difference between gross total audit fees for the year charged in the Pension Fund's Fund account (per the draft accounts) of £49k and the total fees to the left of £60k is £11k. This will be amended for in the final version of the Pension Fund's financial statements.

<b>Non-audit fees for other services</b>	<b>Proposed fee</b>	<b>Final fee</b>
Audit Related Services		
IAS19 Assurance Letters (£5,000 base fee + £1,000 per letter - 18 expected)	£23,000	£23,000
Total non-audit fees (excluding VAT)	£23,000	£23,000

# C. Fees

Detailed below is the reconciliation of the scale fee, set by PSAA in 2018, and the final audit fee to be charged for the financial year which reflects the increased scope and challenge required to be performed in our 2021/22 audit.

Scale fee published by PSAA	£26,310
<i>Increases to scale fee for additional work not considered when the scale fee was originally set by PSAA</i>	
Raising the bar - increased FRC Challenge	£1,875
Enhanced audit procedures for Directly held property	£2,188
Enhanced audit procedures for Investments	£1,750
Increased audit requirements of revised ISAs 540	£3,300
Additional work on journals posted by management	£2,000
<b>Total audit fees (excluding VAT)</b>	<b>£37,423</b>

# D. Audit opinion

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

## 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 2022 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 2021/22.

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 2022 and of the amount and disposition at that date of the fund'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 2021/22; 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 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 are responsible for concluding on the appropriateness of the Chief Executive & 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 Fund'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 Fund to cease to continue as a going concern.

In our evaluation of the Chief Executive & 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 2021/22 that the Pension Fund'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 Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund'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.

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

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

### Other information

The Chief Executive & Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group'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 financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

### Opinion on other matter 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 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, for the financial year for which the financial statements are prepared is consistent with the Pension Fund 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 Fund.

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

As explained more fully in the Statement of Responsibilities, 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 & Director of Resources. The Chief Executive & Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in

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# D. Audit opinion

accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive & 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 & 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 & Governance Committee is Those Charged with Governance for the Pension Fund. 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.

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, 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 senior officers and the Audit, Risk & Governance 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 senior officers, internal audit and the Audit, Risk & Governance 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 Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation

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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:

- Journals, in particular with regard to manual journals, those journals over 5x materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by senior management personnel.
- The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of level 2 and 3 investments.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Executive & Director of Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on manual journals, those journals over 5x materiality, journals posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by senior management personnel;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and 3 investments valuations;
  - 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.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 2 and 3 investments
- 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 Fund 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 Fund'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.

## 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

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# D. Audit opinion

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]

**Sarah Ironmonger, Key Audit Partner**  
for and on behalf of Grant Thornton UK LLP, Local Auditor

**Manchester**

[Date]



