The Audit Findings Report for Lancashire County Pension Fund

Year ended 31 March 2023

April 2024

Contents

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

Name: Sarah Ironmonger
For Grant Thornton UK LLP
Date: April 2024

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.

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 2023 for the attention of those charged with governance.

Financial Statements

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

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed remotely during July-November. Our findings are summarised on pages 5 to 23.

We have completed all of the substantive elements of our audit. There are however some audit tasks which cannot be completed until we are ready to sign the audit opinion. Subject to the satisfactory completion of the items below, there are currently no matters of which we are aware that would require modification of our audit opinion [Appendix H] or material changes to the financial statements. However, this position is subject to the satisfactory completion of the following outstanding matters;

- Receipt of signed management representation letter
- Review of subsequent events up to the date of signing the opinion
- Review of the final set of financial statements

Subject to the satisfactory completion of the outstanding audit work, our anticipated audit report opinion will be unqualified.

1. Headlines

National context – audit backlog

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

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

We would like to thank everyone at the Pension Fund for their support in working with us to complete the audit of the Pension Fund.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Mercer, and showed that the overall funding level for the Fund had increased to 115% (2019 funding level: 100%). The results of the latest triennial valuation are reflected in Note 24 to the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work providing assurances to auditors of employer bodies. As part of this work, we tested a sample of 50 members and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually. See Appendix E for the impact of this work on our 2022/23 audit fee.

2. Financial Statements

Overview of the scope of our audit

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

For Lancashire County Pension Fund, the Audit, Risk and Governance Committee fulfil the role of those charged with governance.

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 not had to alter our audit plan, which was communicated to you at the Audit, Risk & Governance Committee meeting on 24 July 2023.

Conclusion

We have completed a substantial amount of our audit.

Subject to the completion of the final remaining audit tasks, we anticipate issuing an unqualified audit opinion however, the timing of when we are able to issue the opinion is dependent on when the Administering Authority audit opinion is also ready to be issued.

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 and Governance Committee on 24 July 2023.

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	£106.520m	We have determined materiality for the audit to be £105.317m (equivalent to 1% of net assets as at 31/12/2022). This is in line with the industry standard and reflects the risks associated with the Fund's financial performance.
Performance materiality	£79.890m	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: • We are not aware of a history of deficiencies in the control environment • There has not historically been a large number or significant misstatements arising; and • Senior management and key reporting personnel has remained stable from the prior year audit
Trivial matters	£5.326m	This equates to 5% of materiality. This is our reporting threshold to the Audit, Risk & Governance Committee for any errors identified.
Materiality for fund account	£48.910m	This equates to 10% of prior year gross operating costs.

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 substantive testing of the journals posted by management, based upon a risk-scoring method as well as an overarching review of all manual journals posted (due to the small number of postings in the year) has not identified any evidence of inappropriate management override of controls. As with previous years, the Fund does not have authorisation controls in place over journals – refer to page 29 for further details.
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.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
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 (£5,244m) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2023. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement	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 2023 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 2023, 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 2023 is £1.8m. This amount is below our triviality level so no amendment of the accounts is required. Management have amended the accounts to reflect the audited accounts position of LPPI Real Estate which is a reduction in the asset value by £5.4m.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Direct Property 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 to the size of the numbers involved (£152 million) and the sensitivity of this estimate to changes in key assumptions. Management have engaged the services of a valuer to estimate the current value as at 31 March 2023. We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • 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. • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • written out to them and discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records • where available reviewed investment manager service auditor report on design effectiveness of internal controls. **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.**

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Incomplete or inaccurate financial information transferred to the new general ledger In January 2023, the Fund implemented a new general ledger system for the 2022/23 financial year-end. The Fund has moved from Oracle R12 to Oracle Fusion, a cloud-based system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	We have: • completed an information technology (IT) environment review by our IT audit specialists which included documenting and evaluating the design and implementation of controls within the new general ledger system; and • mapped the closing balances from the previous general ledger to the opening balance position in the new ledger to ensure accuracy and completeness of the financial information. Detailed findings from our work on the control environment of the new system can be found on pages 14-15. Our work identified some significant deficiencies in the IT General Controls. Recommendations for management are included at Appendix B. Our work on the migration of balances from the old system to the new system did not identify any issues.
Incomplete or inaccurate information transferred to the new pension administration system Local Pensions Partnership Administration (LPPA) provide the benefits administration services for the Fund. In December 2022, LPPA migrated the LCPF membership data from the previously used Altair system to a new Civica UPM system. It is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous administration system. We therefore identified the completeness and accuracy of the transfer of member data information to the new administration system as a significant risk, which was one of the most significant assessed risks of material misstatement and a key audit matter.	We will: • completed an information technology (IT) environment review which included documenting and evaluating the design and implementation of controls within the new pension administration system; and • Performed substantive procedures to test the completeness and accuracy of the member data transferred to the new system. Our work has not identified any issues with regards to the migration of data to the new pension administration system.

2. Financial Statements: key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £5,244m	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 2023 at £5,244m (per draft accounts). 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. The value of the investments has decreased by £115m in 2022-23, largely due to significant market volatility resulting from the Russian invasion of Ukraine, the September 2022 "mini-budget" and the cost-of-living crisis.	Management determine the values of level 3 investments through placing reliance on the expertise of investment managers. 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. 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. 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 2023, 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 2023 is £1.8m. This amount is below our triviality level so no amendment of the accounts is required. Management have amended the accounts to reflect the audited accounts position of LPPI Real Estate which is a reduction in the asset value by £5.4m.	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
Level 2 Investments – £156.3m	The Pension Fund's level 2 investments consist of the LPPI Fixed Income Fund which is a pooled fund investing in "high credit quality, highly liquid fixed income instruments across geographies, instrument types and maturities". The value of the Fund per the draft financial statements as at 31 March 2023 was £156.3m. The value of the investments has decreased by £242m in 2022-23, largely due to significant reduction in the number of units held by the Fund at year end. These 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.	Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers. As such we have sought confirmations of year end valuations from LPPI 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. We also obtained direct confirmations of balances outstanding from each of the local authority short term loans. No issues were identified from the work which we performed.	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 - £152.8m	The Pension Fund has investments in directly held investment properties that in total are valued on the Net Asset Statement as at 31 March 2023 at £152.8m. 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 31/3/2023. The value of the investments have decreased by £10m in 2022/23. Although there were net purchases of £11m during there year, the fall in the overall valuation of directly held property was largely as a result of significant decreases in the fair value of the properties on revaluation as at 31/3/2023.	Management determine the value of Level 3 direct property investments through placing reliance on the expertise of the property valuer. 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. 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. We did not identify any issues with the approach or assumptions adopted by the Fund's external property valuer.	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: Information Technology

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

			ITGC control area rating				
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Oracle Fusion	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	All significant risks	We have reviewed the findings of the IT audit and confirmed that none of the identified users with admin access/self-assigned access rights had posted any journals during the year. We performed a review of all manual posted journals as part of our journal selection. Also, since the majority of the pension fund posting are agreeable to custodian reports or 3rd party confirmations, we have assurance over information produced by the entity (IPE).
Oracle EBS	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	All significant risks	None – the PF moved to Oracle Fusion during the year.

We have raised further queries with management as a result of the findings from our ITGC work and the recommendations in Appendix B. Management are still considering these further queries.

Assessment

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

2. Financial Statements: Information Technology

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

IT application	Level of assessment performed	Overall ITGC rating	ITGC control area rating: Security management	ITGC control area rating: Technology acquisition, development and maintenance	ITGC control area rating: Technology infrastructure	Related significant risks/other risks	Additional procedures carried out to address risks arising from our findings
Pension Administration System (Civica UPM)	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Links to management override of controls, Fund Account Balances and data provided to the actuary in relation to IAS 19 procedures	None required
Pension Administration System (Altair)	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	As above	None – the PF moved to Civica UPM during the year.

Assessment

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

2. Financial Statements: Information Technology

We also performed specific procedures in relation to the changes to key systems during the audit period, specifically the implementation of the new general ledger system and the new pension administration system. We observed the following results:

IT system	Event	Result	Related significant risks/ risk/observations
Oracle Fusion	New system implementation	Significant deficiencies identified in IT controls relevant to the audit of financial statements. Lack of proper documentation and retention of the IT project related activities. See recommendations at Appendix B.	- All significant risks
Civica UPM	New system implementation	No significant deficiencies have been identified	- Links to management override of controls, Fund Account Balances and data provided to the actuary in relation to IAS 19 procedures

Assessment

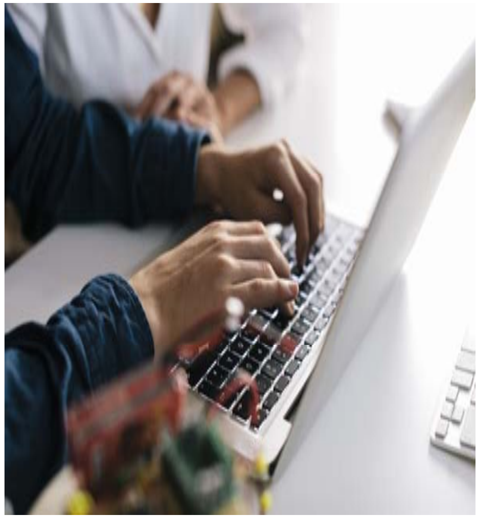
- Significant deficiencies identified in IT controls relevant to the audit of financial statements
- Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- IT controls relevant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

2. Financial Statements: 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. We have not requested any additional specific representations from management. See draft representation letter at Appendix G.
Audit evidence and explanations	We note that there were significant delays in the provision of some working papers and responding to requests to provide evidence for audit samples by LPPA. Whilst we had weekly calls with staff at LPPA to discuss progress, the timeframes for the provision of information was far longer than we would expect and resulted in significant delays to the completion of the audit. We do understand that there are currently staffing/capacity issues at LPPA and that LPPA provides administration services to 18 clients. If we are to get back to a position where we aim to sign off the audit by 30 September in future years, then it will be necessary to ensure that all key working papers are provided at the start of the audit and that sample evidence is returned promptly. We will discuss this with management as part of our review of this years' audit. As a result of the delays additional resources were required to complete the audit, incurring additional audit fee costs. See Appendix E.

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. All confirmations were received.
Accounting practices	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. 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.

2. Financial Statements: other communication requirements

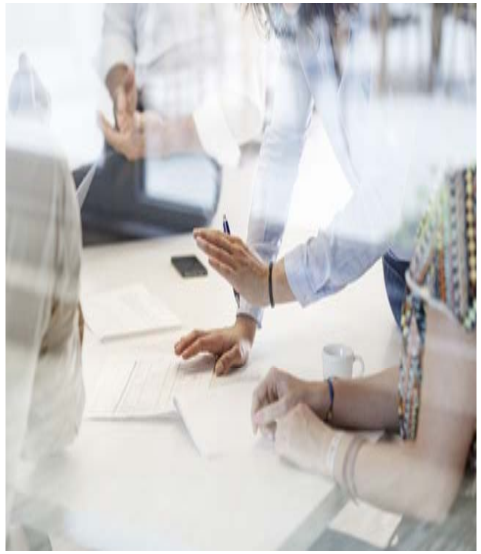
Our responsibility

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

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

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	The Pension Fund is administered by Lancashire County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix H.
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. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

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

3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards.

Service	Fees £	Threats identified	Safeguards
Audit related			
IAS19 procedures for other bodies admitted to the pension fund	£39,000 (£6,000 base Fee, £5,000 Triennial Valuation plus £1,100 for each set of audit procedures - 20 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 £51,036 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. The amount to be recharged is to be confirmed – see appendix E for a reconciliation to the financial statements. 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.
IAS19 procedures for other bodies admitted to the pension fund – Note that this is additional work relating to 2021-22 IAS 19 Assurance. It is in addition to the £23,000 reported to the Committee in the 2021-22 Audit Findings Report	We also issued 7 additional 21-22 letters due to the triennial valuation requiring bodies to update their 31/3/2022 accounts for the impact of the triennial valuation (£1,000 each)	Self-Interest Self-review Management	The fee for this work is recurring but not significant compared to the audit of the financial statements of £51,036 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. The amount to be recharged is to be confirmed – see appendix E for a reconciliation to the financial statements. 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.

3. Independence and ethics

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

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff
For transparency, we are disclosing 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% share of the equity.	The audit fees are paid directly by LPP with no financial impact for Lancashire County Pension Fund or the Council. This disclosure is purely to make members aware of our relationship with bodies related to Pension Fund. The Council and Pension Fund Audits are undertaken by a separate audit team from the Public Sector arm of the firm, as opposed to the audit team that delivers the LPP audits. There are different Engagement Leaders in place for the audits, and where we seek to place reliance on the LPP audit, this is treated as an auditor's expert for the purposes of our work. The LPP audit is undertaken in accordance with relevant auditing standards. We are satisfied that this work has no impact on our independence for the audit of Lancashire County Pension Fund.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Appendices

A. Communication of audit matters to those charged with governance

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

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

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

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings Report

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

B. Action Plan – Audit of Financial Statements

We have identified 9 recommendations for the Pension Fund (and Council) as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2023/24 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	**1. System design and specification and key custom reports documentation shared by Egress Ltd lacked explicit approval** During our review, we inspected the Fusion BI reports' functional specification and custom reports workbooks. Confirmed that the documents included the design for each critical financial component and associated processes, considerations of additional conditions for automation, type and format of data and processes to be delivered. Additional business requirements and rules that may affect the system operations were also covered. However, we noted that the workbooks shared did not include individual approvers of each document, hence we could not verify if each design and specification aspect of Oracle Fusion was formally considered and approved. Risk The lack of individual approvers for each specification and design document increases the risk of errors, inaccuracies, and suboptimal functionality in the system. It is therefore recommended that all design and specification aspects of the system be reviewed, approved, and documented to minimise the risk of issues or errors in the system.	Ensure that all design and specification aspects of the system are documented, reviewed, and formally approved. This can be coupled with an existing formal change management process to track and manage any changes to the system design and specification to ensure that they are properly reviewed and approved before implementation. Management response There is now a formal change management and design approval process in place for all designs specifications and approvals.
	2. Segregation of Duties (SoD) issues identified during the Oracle Fusion security and finance roles mapping LCC tracked the finance users' LCC Job Role to their Oracle Fusion roles. However, upon inspection of the mapping documents and inquiry with the LCC, we confirmed that the process was not effective as the issues with segregation of duties were identified during the development and after Go-Live. Within the evidence submitted, we noted that the issues with access were highlighted with 16 user accounts. Furthermore, limited stakeholder approval evidence was provided for the SoD verification. During our ITGC review, we identified issues with privileged access conflicts. Refer to finding 7 for details. Risk The ineffective process of mapping system roles with employee designations increases the risk of unauthorised access to sensitive financial data, which can result in errors, omissions or material misstatements. Without proper stakeholder approval evidence, it is difficult to ensure that the SoD verification process was effective and that all potential SoD conflicts were identified and addressed.	It is recommended that management conduct a thorough review of their segregation of duties (SoD) process within the Oracle Fusion system to identify and address any potential conflicts. Management should also ensure that access to sensitive financial data and processes is restricted to only those with a legitimate business need and that stakeholder approval evidence is properly documented and maintained to support the SoD verification process. Regular reviews and updates of access controls should also be conducted to minimise the risk of unauthorised access. Management response A thorough review has been completed and all role restrictions are now in place. All changes are recorded in the Councils IT Service management tool with regular reviews are in place. A further, more strategic, project is taking place to review all roles and standardise them across the whole system.

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	3. Data was not completely migrated into Oracle Fusion We inspected the three validation reports that summarised the reconciliation runs conducted for financial tables loading of ERP and HCM (HR/Payroll) modules and noted that LCC was unable to provide evidence that 100% of data was migrated. We also inspected a Programme Board Highlight report and confirmed that LCC accepted the risk of incomplete data migration and opted for manual handling of low volume data migration issues. Confirmed that LCC was able to cross match and sign off on discrete data sets, such as the GL balance transferred to Fusion. However, there were limitations in reporting capabilities of Oracle Fusion, which made it impossible to carry out detailed subledger migration reconciliation. Further noted that there was no close-out remedial action report from the migration partner, Egress, and the business leads had to undertake remedial action on a business-as-usual (BAU) basis with support from third party, Fujitsu. **Risk** Inappropriate data migration, lack of a close-out remedial action report and the limitations in the reporting capabilities of Oracle Fusion highlights the possibility of errors or inaccuracies in the migrated data. Examples may include incorrect financial reporting or inaccurate financial statements.	Management should consider the following steps to address the issue: • Conduct a thorough review of the migration process to identify any potential errors or inconsistencies in the migrated data. This involves incorporating continuous validating process for and formally assessing the completeness and accuracy of the migrated data, with accordant approvals. • Ensure that the limitations in the reporting capabilities of Oracle Fusion are addressed to enable detailed subledger migration reconciliation and are formally documented. This can be achieved by either performing further development work on updating such reporting capabilities or implementing additional reporting tools that can provide the required level of detail. • Consider implementing additional controls and measures to ensure the completeness and accuracy of migrated data, such as conducting additional testing and validation of the migrated data and implementing a formal change management process to track, manage and resolve all associated inconsistencies. **Management response** The council's migration strategy took into account the functionality available at the time, however, subsequently that approach has shown some deficiencies. These have been worked through since go-live, and materially eliminated by the closure of the 2022/23 accounts. A reporting strategy is being finalised and work with the system vendor specifically on reporting is underway, so that further data cleanse activity is more efficient.
	4. Lack of explicit Chart of Accounts mapping approval documentation We inspected the general ledger hierarchy loaders used to integrate the charts of accounts. In total, 9 files were assessed and verified that they covered specific cost centres and their associated segmentations based on value. However, issues with data migration completeness and accuracy were noted during the project and no explicit approval for the Charts of Accounts mapping was provided by LCC. **Risk** Without explicit approval for the Charts of Accounts the risk of inconsistencies or errors in the financial data within the Oracle Fusion system increases. It can be difficult to ensure that all aspects of the financial data are accurately reflected in the system and have been reconciled.	Management should consider implementing additional controls and measures to ensure the completeness and accuracy of migrated data. This can include conducting additional testing and validation of the migrated data, implementing a formal change management process to track and manage any changes to the system, and reviewing and updating the post implementation processes to ensure that best practices are being followed. **Management response** The council did not make any significant changes to its chart of accounts. There was a sign-off process between R12 and Fusion balances. A more formal change management process for updates and amendments for oracle fusion is now in place.

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	**5. Lack of complete documentation for the key interfaces** Key interfaces were recorded and tracked in the Integrations Tracker. However, the tracker shared was incomplete and did not provide verified information on individuals who tested and approved the interfaces. Risk Without complete and verified information on individuals who tested and approved the interfaces, it can be difficult to ensure that all necessary steps were taken to ensure the accuracy and completeness of the interfaces. This can result in issues with data integrity, quality, and security.	Management should consider conducting a thorough review of the key interfaces to ensure that they are functioning as intended and that data integrity, quality, and security are maintained. This can include conducting additional testing and validation of the interfaces and implementing additional controls and measures to ensure the completeness and accuracy of the data. Management response A project is currently underway to review and document all interfaces in Oracle Fusion.
	6. Post-implementation review identified significant errors with migrated data Inspected the briefing note from LCC Finance Team regarding the post go-live activity as of 23/07/2023 and confirmed the following: The review of transactions between the 22/23 and 23/24 financial years had identified several issues, including emergency payments made outside of systems, invoices that failed to migrate from R12 to Fusion, transactions posted in R12 after the cutover, D&C income posted to May 23, and missing transactions in AP following the bank reconciliation. Despite corrective measures having been taken, and the wider Finance Team has held regular meetings, there was still a risk of errors emerging. The Finance Team has been asked to consider transferring or correcting any late processed transactions for 22/23 in the first quarter of 23/24. Risk The need to transfer or correct late processed transactions for the previous financial year further increases the risk of material misstatements in the financial statements. Therefore, the identified risks can have significant financial and operational implications for the organisation and should be addressed promptly to ensure the integrity of financial data and compliance with regulatory requirements.	Management should consider the following: • Conduct a comprehensive review of the financial data in the Oracle Fusion system to identify any additional issues or inaccuracies. This should include a review of emergency payments made outside of systems, invoices that failed to migrate, transactions posted after the cutover, and missing transactions • Establish a robust process for identifying and addressing issues in a timely manner, such as implementing a system for regular monitoring and reporting of financial data and establishing a framework for addressing identified issues promptly. Management response A comprehensive review was undertaken as part of the closedown of the 2022/23 accounts, following which regular monitoring is undertaken on a monthly basis through the council's financial monitoring schedule

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	**7. Business users with inappropriate administrative access to Oracle EBS and Oracle Fusion** During our audit, we noted that system administrative access to Oracle EBS and Oracle Fusion had been granted to 36 and 17 business users, respectively. These users had financial or operational responsibilities. Furthermore, management was unable to provide justification for two privileged generic accounts identified in Oracle Fusion. Risk A combination of administration and financial/ operational responsibilities creates a risk that system-enforced internal controls can be bypassed. This could lead to • unauthorised changes being made to system parameters • creation of unauthorised accounts, • unauthorised updates to their own account privileges • deletion of audit logs or disabling logging mechanisms.	Access should be based on the principle of least privilege and commensurate with job responsibilities. Management should define segregation of duty policies and processes and ensure that there is an understanding or roles, privileges assigned to those roles and where incompatible duties exist. It may be helpful to create matrices to provide an overview of the privileges assigned to roles. Management should adopt a risk-based approach to reassess the segregation of duty matrices on a periodic basis. This should consider whether the matrices continue to be appropriate or required updating to reflect changes within the business. If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities, e.g. reviewing system reports of detailed transactions; audit trails for activities performed by the privileged accounts, etc. Management response The council has updated and amended access privileges for users who had been given access for the purposes of system implementation. Digital Services manage a central control point where reviews are undertaken regularly to ensure compliance in this area
	8. Lack of formal process in managing Oracle Fusion self-assigned roles We identified 38 instances in Oracle Fusion applications where accesses were self-assigned. This comprises eight unique users who assigned the accesses to their accounts. No approval documentation was provided for audit inspection. Risk User access may not be appropriately aligned to job role requirements which may lead to inappropriate access within the application or underlying data.	Management should ensure that all access requests are formally documented and approved. Additionally, it is advisable to regularly monitor system audit trails, preferably by IT security personnel or a team independent of those administering Oracle Fusion and its underlying database. Any identified issues within these trails should be thoroughly investigated, and mitigating controls should be implemented to minimize the risk of recurrence. Management response Accesses have been reviewed and access has been removed for those no longer needed. This will be reviewed regularly with permission requests following a formal route.

B. Action Plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
High	9. Insufficient retention of documents related to Oracle Fusion system changes and access provisioning During our audit, we noted that relevant documentation of Oracle Fusion system changes and access provisioning was not available for audit inspection. We were informed that the Service Now application was used for the management of IT services, encompassing system changes and access provisioning throughout the audit period. However, this application was no longer accessible at the time of our audit as it was decommissioned. Risk Without proper retention of documentation: • It becomes challenging to attribute changes to specific individuals or teams, leading to a lack of accountability for system modification and access-related actions • In scenarios involving staff turnover or changes in roles, it poses difficulties in transferring knowledge related to system changes and access provisioning processes, leading to potential disruptions • It becomes harder to monitor and detect insider threats, as unauthorised activities may go unnoticed in the absence of clear record • It can impede troubleshooting and problem resolution processes, causing delays in addressing issues and impacting overall system performance	It is recommended that management should establishing and maintaining a robust system change and access provisioning documentation process for ensuring transparency, accountability, and security of the IT environment. The process should include clear guidelines, regularly updates records, and adherence to security best practices. When changing the IT services solutions (such as Service Now application), it is recommended that management should follow the process of acquiring and developing new IT system, including: • Implement a comprehensive data backup plan before migrating to a new IT services solution. The integrity of backups should be verified to ensure that critical records are securely stored and can be readily accessed if needed. • Document all relevant information about the existing IT service solution, including access provisioning, system changes, and configurations. • Perform thorough validation and integrity checks on data migrated to the new IT service solution to identify and address any discrepancies or missing records. Management response Service Now (the council's incident management tool) is now fully functioning and is being used to log all incidents and changes concerning Oracle Fusion. This allows us to monitor, maintain, and secure Oracle Fusion and a robust Digital Service change management process is in place.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issue in the audit of the Pension Fund's 2020/21 financial statements, which resulted in a recommendation being reported. This issue continues to exist and so we continue to report it for the attention of Those Charged with Governance.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	Issue and Risk 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. The risk is that the absence of authorisation controls at the time of input creates a higher risk of error or manipulation. Recommendation Review the authorisation procedures in place over journal input.	Management Response 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. Audit Response 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.

Assessment

✓ Action completed

X Not yet addressed

D. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements and their impact on the main statements are set out below:

Detail	Pension Fund Account £m	Net Asset Statement £m	Impact on total net assets £m
Ledger Reconciliation Differences On completion of our agreement of the trial balance to the accounts and through discussions with management, it was identified that there were some minor reconciling differences between the ledger codes for transfers in, accrued expenses and sundry debtors which net off against each other to a minor impact on the Fund Account. Management has however made these amendments to the final set of accounts.	£0.6m	£0.6m	£0.6m
Level 3 Investments As detailed on page 8 of our report, management have amended the accounts to reflect the audited accounts position of LPPI Real Estate which was a reduction in the asset value by £5.4m.	(£5.4m)	(£5.4m)	(£5.4m)
Overall impact	£4.8m	£4.8m	£4.8m

D. 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.

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/issue/Omission	Auditor recommendations	Adjusted?
Presentation/Disclosure Changes A number of minor amendments have been suggested to management from our financial statements presentation and internal consistency review. This includes Note 2, Note 5, Note 21 and other minor amendments to other notes in the accounts.	The final version of accounts is to be amended for these matters.	✓
Note 4 Critical Judgements This note has been revised to remove disclosures made in the draft accounts which when challenged, management did not believe where the most critical judgements made in the application of their accounting policies. A new disclosure has been added for the judgement that, based on the key inputs into the valuation of the LPPI Global Equities Pooled Fund, it should be classified as a level 1 investment.	The final version of accounts is to be amended for these matters.	✓
Notes 13, 16 and 17 From our audit work performed there have been various amendments made to the investments and financial instrument notes to ensure that they are all consistent with each other, agree to supporting workings and are presented in line with the code. These notes are all disclosure notes so there is no impact on the main statements from these changes	The final version of accounts is to be amended for these matters.	✓

D. Audit Adjustments (continued)

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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
Investment Manager Fees 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 an understatement of 2022-23 investment manager fees of £1.4m. Our testing also identified an understatement of 2021-22 investment manager fees (not received until 22/23 or adjusted for in 22/23) of £6.7m. The total understatement of £8.1m is below PM and will be accounted for in the 2023/24 accounts.	(£8.1m)	(£8.1m)	(£8.1m)	Not material
Overall impact	(£8.1m)	(£8.1m)	(£8.1m)	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

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.	£33.7m	£33.7m	£33.7m	Below Performance Materiality
Overall impact	£33.7m	£33.7m	£33.7m	

E. Fees and non-audit services

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

Audit fees	Proposed fee (£)	Final fee (£)
Scale Fee (set by PSAA)	£28,185	£28,185
Valuation of Level 3 Investments	£1,563	£1,563
Valuation of Directly held Property	£2,188	£2,188
Impact of ISA 540	£3,600	£3,600
Impact of ISA 315	£3,000	£3,000
Journals testing	£2,000	£2,000
Additional testing of member data analytical review – change in circumstances	£500	£500
Quality review – response to FRC (Hot Review – occurs bi-annually)	0	£2,500
Review of the controls and implementation of the new ledger and pension administration systems	£10,000	£10,000
Additional resourcing costs incurred due to significant delays in receipt of evidence	0	£5,000
Pension Fund Audit	**£51,036**	**£58,536**
IAS 19 letters for employer body auditors	£34,000	£27,300**
Work on triennial valuation member data *	£5,000	£5,000
Total audit fees (excluding VAT)	£90,036	£90,836

*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2023/24 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

** We are still awaiting request letters from a number of auditors of admitted bodies. The proposed national audit sign-off backstop date in 2024 may mean that some auditors do not complete 2022-23 audits and so do not request an IAS 19 assurance letter from us. As such the final fee for IAS 19 letters included in this table is a best estimate and remains subject to change.

Variations to the scale fee are subject to PSAA approval which often takes place after we have signed the audit opinion. We do not believe that this impacts upon our integrity, objectivity or independence.

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
IAS19 Assurance Letters (£6,000 base fee + £1,100 per letter – 20 expected though not all yet received)	£39,000	£32,300
Triennial Valuation Fee - £5,000		
Additional 2021-22 Letters (£1,000 – per letter – 7 issued) – Note that this is additional work relating to 2021-22 IAS 19 Assurance. It is in addition to the £23,000 reported to the Committee in the 2021-22 Audit Findings Report		
Total non-audit fees (excluding VAT)	£39,000	£32,300

The Audit fees for the opinion reconcile to the financial statements per our proposed figures. The additional fees charged per the final audit fees will be accounted for in 2023/24.

There are reconciling items with regards to the additional IAS 19 Fees, which will again be accounted for in 2023/24:

IAS 19 fees per Note 10 of the financial statements - £25,800

- Triennial Valuation Fee - £5,000
- Additional revised 21-22 IAS 19 Fees - £6,000 (These assurance letters were issued in June 2023 and November 2023 to account for results of 31/3/2022 Triennial Valuation)
- Two additional requests for 2022-23 (Only 18 letters in 2021/22) - £2,200 (£1,100 per letter)

Total fees per above - £39,000

None of the above services were provided on a contingent fee basis. This covers all services provided by us and our network to the Fund, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence.

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

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

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

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

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

G. Management Letter of Representation

[LETTER TO BE WRITTEN ON CLIENT HEADED PAPER]

Grant Thornton UK LLP
11th Floor,
Landmark St Peter's Square,
1 Oxford St,
Manchester,
M1 4PB

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION]

Dear Sirs
Lancashire County Pension Fund Financial Statements for the year ended 31 March 2023
This representation letter is provided in connection with the audit of the financial statements of Lancashire County Pension Fund for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.
We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:
Financial Statements
i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include level 2 investments, level 3 investments and directly-held investment property. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.
vi. Except as disclosed in the financial statements:
a. there are no unrecorded liabilities, actual or contingent
b. none of the assets of the Fund has been assigned, pledged or mortgaged
c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Fund and its financial position at the year-end.
xi. The financial statements are free of material misstatements, including omissions.
xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
xiv. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :
a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements
b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and
c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

G. Management Letter of Representation

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided
xv. We have provided you with:
a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.
xvi. We have communicated to you all deficiencies in internal control of which management is aware.
xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.
xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:
a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.
xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
xxii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxiii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
xxiv. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval
The approval of this letter of representation was minuted by the Audit, Risk & Governance Committee at its meeting on XX XX XXXX.

Yours faithfully

Name……………………………..

Position…………………………..

Date……………………………..

Name……………………………..

Position…………………………..

Date……………………………..

Signed on behalf of the Fund

H. 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 on financial statements

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 2023, 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 2022/23.

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 2023 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 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension 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 Section 151 Officer's 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 Section 151 Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Pension 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 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

In auditing the financial statements, we have concluded that the Section 151 Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Section 151 Officer with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements and our auditor's report thereon, and our

H. Audit opinion

auditor's report on the Authority's and group's financial statements. The Section 151 Officer is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements, 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 and the Section 151 Officer

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 Section 151 Officer. The Section 151 Officer 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 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Section 151 Officer 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 Section 151 Officer 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 they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

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

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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the

H. Audit opinion

United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003), Public Service Pensions Act 2013, Local Government Pension Scheme Regulations 2013 and Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

We enquired of management and the Audit, Risk and 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 management, internal audit and the Audit, Risk and 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 management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation manual journals, those journals over 5 times 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. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on manual journals, those journals over 5 times 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 investments, level 3 investments and directly held property, and
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

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

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including management override of controls. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

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

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government pensions sector
- understanding of the legal and regulatory requirements specific to the Pension 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.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

H. Audit opinion

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Sarah Ironmonger, Key Audit Partner

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

Manchester

DATE

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