



15 April 2011

Gill Kilpatrick  
Treasurer  
Lancashire County Pension Fund  
County Hall  
PO Box 78  
Preston  
PR1 8XJ

**Direct line** 0844 798 7056

Dear Gill

## Annual Audit Fee 2011/12 - Lancashire County Pension Fund

I am writing to confirm the audit work that we propose to undertake for the 2011/12 financial year on Lancashire County Pension Fund. The fee reflects the risk-based approach to audit planning set out in the Code of Audit Practice and work mandated by the Commission for 2011/12.

As I have not yet completed my audit for 2010/11 the audit planning process for 2011/12, including the risk assessment, will continue as the year progresses.

### Audit fee

The Audit Commission has set the scale fee for each audited body for 2011/12, rather than providing a scale fee with fixed and variable elements. The scale fee for pension funds reflects no inflationary increase in 2011/12 for audit scales of fees and is calculated based on the size of pension fund net assets.

The Commission has stated in its "Work programme and scale of fees 2011/12" publication that it will keep scale fees for pension funds under review. In this context the Commission will analyse the costs of completed 2010/11 audits to determine whether it needs to make any changes.

The scale fee for Lancashire County pension Fund is £55,089. The table below shows a comparison of audit and scale fees for 2011/12 and 2010/11.

<b>Audit Area</b>	<b>2011/12</b>	<b>2010/11</b>
<b>Scale Fee</b>	£55,089	£49,437
<b>Planned Audit Fee</b>	£55,089	£61,795

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Variations from the scale fee will only occur where my assessments of audit risk and complexity are significantly different from those assumed within the scale fee. The audit fee set for 2010/11 reflected the need for additional audit procedures relating to a number of specific audit risks for the Pension Fund including issues around the lack of a separate bank account and difficulties in obtaining assurance for the private equity fund investments. For 2011/12 these issues are not expected to require additional audit procedures following changes made by the Pension Fund. However, the application of the Pension Fund's new Treasury Management Strategy and Policy could result in the need for additional audit procedures. In particular investments in new and more complex financial instruments could require further audit work. At this time, it is too early to assess the impact of the proposed changes on my audit responsibilities and I have therefore set the initial audit fee at scale fee for 2011/12. On completion of my 2010/11 audit I will consider the impact of the new arrangements for the management of the pension fund and will assess the impact on the audit fee. This review will include consideration of the planned reviews to be undertaken by internal audit for 2011/12 and the extent to which they will reduce the need for me to undertake additional audit procedures.

I will issue a separate audit plan in December 2011. This will detail the risks identified to the financial statements audit. The audit plan will set out the audit procedures I plan to undertake and any changes in fee. If I need to make any significant amendments to the audit fee, I will first discuss this with you. I will then prepare a report outlining the reasons the fee needs to change for discussion with the audit committee and pension

I will issue several reports over the course of the audit. I have listed these at Appendix 1.

The fee excludes work the Commission may agree to undertake using its advice and assistance powers. We will negotiate each piece of work separately and agree a detailed project specification.

## Audit team

The key members of the audit team for 2011/12 are:

Name	Contact details	Responsibilities
Clive Portman District Auditor	<a href="mailto:c-portman@audit-commission.gov.uk">c-portman@audit-commission.gov.uk</a> 0844 798 7038	Clive is responsible for the overall delivery of the audit including the quality of outputs, liaison with the Treasurer and Chairs of the Pension Fund and Audit Committees and issuing the auditor's report.
Fiona Blatcher Engagement Manager	<a href="mailto:f-blatcher@audit-commission.gov.uk">f-blatcher@audit-commission.gov.uk</a> 0844 798 7056	Fiona manages and coordinates the different elements of the audit work. Key point of contact for the Treasurer.
Ian Pinches Team Leader	<a href="mailto:i-pinches@audit-commission.gov.uk">i-pinches@audit-commission.gov.uk</a> 0844 798 1975	Ian has experience of auditing the financial statements of pension funds. He will lead the on-site team in delivering the audit.

Your audit team will:

- be readily accessible and responsive to your needs, but independent and challenging to deliver a rigorous audit;
- understand national developments and have a good knowledge of local circumstances; and
- communicate relevant information to you in a prompt, clear and concise manner.

I am committed to providing you with a high-quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me. Alternatively you may wish to contact Chris Westwood, Director of Professional Practice, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk)

Yours sincerely

Clive Portman  
*District Auditor*

## Appendix 1- Planned outputs

We will discuss and agree our reports with officers before issuing them to the Pension Fund Committee. As the pension fund accounts remain part of the financial statements of Lancashire County Council as a whole, the Audit Committee will retain ultimate responsibility for receiving, considering and agreeing the audit plans, as well as receiving and considering any reports arising from the audit.

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**Table 1**

<b>Planned output</b>	<b>Indicative date</b>
Audit plan	December 2011
Annual governance report	September 2012
Auditor's report giving the opinion on the financial statements	September 2012