# Audit Findings

*Year ending 31 March 2018*

Lancashire County Pension Fund

19 July 2018

# Contents

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# Headlines

## Introduction

This table summarises the key issues 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 2018 for those charged with governance.

| | | |
|---|---|---|
| **Financial Statements** | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:<br>• the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting; | Our audit work was completed on site during June and July. Our findings are summarised on pages 14 to 17. We have identified one material adjustments to the financial statements that have resulted in a £137 million adjustment to the Fund’s reported financial position. The Pension Fund has also made some disclosure adjustments to management expenses and providing more detail in respect of the amounts managed by LPPI. Audit adjustments are detailed in Appendix A.<br>We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 30 July 2018. These outstanding items include:<br>- reviewing responses in respect of the queries raised on Level 2 investments, completing our work on the membership data and our final sample testing of journals;<br>- review of the final set of financial statements;<br>- review of the final version of the annual report;<br>- completion of our internal review procedures;<br>- obtaining and reviewing the management representation letter; and<br>- updating our post balance sheet events review to the date of signing the opinion. |


## Acknowledgements

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

# Summary

### Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (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 for the preparation of the financial statements.

### Audit approach

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

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

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit, Risk and Governance Committee meeting on 30 July 2018, as detailed in Appendix C. These outstanding items include:

- reviewing responses in respect of the queries raised on Level 2 investments, completing our work on the membership data and our final sample testing of journals;
- review of the final set of financial statements;
- review of the final version of the annual report;
- completion of our internal review procedures;
- obtaining and reviewing the management representation letter; and
- updating our post balance sheet events review to the date of signing the opinion.

### Our approach to materiality

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

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for the Pension Fund.. We have set a separate materiality for disclosure of senior officers remuneration.

| | Pension Fund Amount (£) |
|---|---|
| Materiality for the financial statements | £72,093,000 (1% of net assets) |
| Performance materiality | £54,070,000 (75% of materiality) |
| Trivial matters | £3,604,000 (5% of overall materiality) |

# Significant audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 1 | **Improper revenue recognition**<br>Under ISA (UK) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.<br><br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA (UK) 240 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:<br>• there is little incentive to manipulate revenue recognition;<br>• opportunities to manipulate revenue recognition are very limited;<br>• the culture and ethical frameworks of local authorities, including Lancashire County Council as the Administering Authority of Lancashire County Pension Fund, mean that all forms of fraud are seen as unacceptable.<br><br>Therefore we do not consider this to be a significant risk for Lancashire County Pension Fund. |
| 2 | **Management override of controls**<br>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.<br>We identified management override of controls as a risk requiring special audit consideration. | **We have:**<br>• gained an understanding of the accounting estimates, judgements applied and decisions made by management and considered their reasonableness;<br>• obtained a full listing of journal entries, identified and tested unusual journal entries for appropriateness;<br>• evaluated the rationale for any changes in accounting policies or significant unusual transactions.<br><br>Our work has not identified any evidence of management override of controls. Our sample testing of journals is ongoing but has not identified any issues to date. |

# Significant audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 3 | **The valuation of Level 3 investments is incorrect**<br>Under ISA (UK) 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. | **We have:**<br>• gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls;<br>• 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;<br>• considered the competence, expertise and objectivity of any management experts used;<br>• reviewed the qualifications of the custodian as an expert to value Level 3 investments at year end.<br><br>Our audit work has not identified any issues in respect of the risks relating to the valuation of Level 3 investments at year end. In our audit plan we outlined that we would test a sample of Level 3 investments, however, all Level 3 investments are valued by LPPI Global Equities Fund and their value has been confirmed by the Custodian. We have therefore relied upon our consideration and assessment of the Custodian as an expert to value Level 3 investments. |

# Reasonably possible audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 4 | **Contributions**<br>Contributions from employers and employees represents a significant percentage (67%) of the Fund's revenue. | **We have:**<br>• evaluated the Fund's accounting policy for recognition of contributions for appropriateness;<br>• gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls;<br>• tested a sample of contributions to source data to gain assurance over their accuracy and occurrence;<br>• rationalised contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.<br><br>Our work has not identified any significant issues in relation to the risk identified. |
| 5 | **Pension Benefits Payable**<br>Pension benefits payable represents a significant percentage (80%) of the Fund's expenditure. | **We have:**<br>• evaluated the Fund's accounting policy for recognition of  pension benefits expenditure for appropriateness;<br>• gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls;<br>• tested a sample of individual pensions in payment by reference to member files;<br>• rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.<br><br>Our work has not identified any significant issues in relation to the risk identified. |

# Reasonably possible audit risks

| | Risks identified in our Audit Plan | Commentary |
|---|---|---|
| 6 | **The valuation of Level 2 investments is incorrect**<br>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. | **We have:**<br>• gained an understanding of the Fund’s process for valuing Level 2 investments and evaluated the design of the associated controls;<br>• 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;<br>• reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances;<br>• for direct property investments agreed values in total to valuer's report and undertook steps to gain reliance on the valuer as an expert.<br><br>We are currently finalising our work on Level 2 investments. We raised a small number of queries where the amounts in the Pension Fund accounts, based upon the valuation by the Custodian were significantly different to the valuation provided by the fund manager or valuer. The Pension Fund team has provided us with responses and we are currently reviewing them. |

# Going concern

## Our responsibility

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

| Going concern commentary | Auditor commentary |
|---|---|
| **Management's assessment process**<br>The Pension Fund has reviewed their going concern position and has concluded that it is appropriate to produce their accounts on a going concern basis and no material uncertainties exists. They have considered the Funds funding position and any communications with the relevant Department and Secretary of State. | • The Pension Fund’s use of the going the concern basis of accounting is appropriate;<br>• The Pension Fund’s assessment of going concern was communicated to us in the Chair of the Audit, Risk and Governance Committee’s letter to us dated 30 April 2018;<br>• Sufficient assets to meet liabilities as they fall due. The last triennial valuation, as at 31 March 2016 reports a funding level of 90%. |
| **Work performed**<br>Reviewed management's assessment of going concern and the assumptions and supporting information. | • No material uncertainty identified;<br>• Sufficient assets to meet liabilities as they fall due. The last triennial valuation, as at 31 March 2016 reports a funding level of 90%;<br>• The Pension Fund continues to operate as usual with contributions and investment income being received and benefits being paid. |
| **Concluding comments**<br>The Pension Fund’s use of going concern basis of accounting is appropriate. | • Our opinion is unmodified in respect of the going concern conclusion. |

# Significant matters discussed with management

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

| | Significant matter | Commentary |
|---|---|---|
| 1 | Significant events or transactions that occurred during the year | In April 2017 the Pension Fund received £137.0 million in upfront payments from employers for deficit funding contributions and service rate contributions for 2018/19 and 2019/20. The Fund was accounting for these as receipts in advance and showed a current and long term liability. Our view is that for the Pension Fund accounts it is revenue recognition that is the important consideration. These payments would meet the definition of income for the Pension Fund as there is no prospect of this cash being paid back These amounts are due to the Pension Fund in 2017/18 and are an asset of the Pension Fund in 2017/18, which the Pension Fund has invested in 2017/18 to generate income in the Pension Fund accounts. Therefore these should be accounted for as income in the Pension Fund accounts in 2017/18.<br>The accounts have been amended. |
| 2 | Business conditions affecting the Pension Fund, and business plans and strategies that may affect the risks of material misstatement | No issues to report. |
| 3 | Concerns about management's consultations with other accountants on accounting or auditing matters | No issues to report. |
| 4 | Discussions or correspondence with management in connection with the initial or recurring appointment of the auditor regarding accounting practices, the application of auditing standards, or fees for audit or other services | We were re-appointed as auditors of Lancashire County Pension Fund for five years from 2018/19. We issued our fee letter for 2018/19 on the 20 April 2018 and this will be presented to the Audit, Risk and Governance Committee on 30 July 2018. |
| 5 | Significant matters on which there was disagreement with management, except for initial differences of opinion because of incomplete facts or preliminary information that are later resolved by the auditor obtaining additional relevant facts or information | No issues to report. |
| 6 | Other matters that are significant to the oversight of the financial reporting process | No issues to report. |

# Accounting policies, judgements and estimates

| Accounting area | Summary of policy | Comments | Assessment |
|---|---|---|---|
| **Revenue recognition** | Note 3 – Accounting policies for recognition of income as follows:<br>• Contribution income – recognised on an accruals basis, receipts in advance are accounted for as accrued income<br>• Transfers to and from other schemes – recognised on a cash basis with the exception of bulk transfers, which are accounted for on an accruals basis.<br>• Investment income:<br>- interest income – recognised on accruals basis<br>- dividend income – recognised when shares are quoted<br>- distribution from pooled funds – recognised at date of issue<br>• property related income - rental income recognised on straight line basis lease period<br>• movement in net market value of investments – recognise realised and unrealised profits over financial year. | Our review confirmed that your accounting policies in respect of revenue recognition were in line with our expectations except for the upfront payment of contributions for deficit funding and service rate contributions. You were accounting for these as receipts in advance and showed a current and long term liability. Our view is that for the Pension Fund accounts it is revenue recognition that is the important consideration. These payments would meet the definition of income for the Pension Fund as there is no prospect of this cash being paid back These amounts are due to the Pension Fund in 2017/18 and are an asset of the Pension Fund in 2017/18, which the Pension Fund has invested in 2017/18 to generate income in the Pension Fund accounts. Therefore these should be accounted for as income in the Pension Fund accounts in 2017/18.<br>Accounting policy has been updated and accounts amended. | ● RED |
| **Judgements and estimates** | Key estimates and judgements include:<br>– valuation of level 3 investments (unquoted private equity and infrastructure investments)<br>– pension fund liability<br>– actual present value retirement benefits | Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund.<br>Our testing has confirmed the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied. | ● GREEN |
| **Other critical policies** | We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The accounting policies are appropriate and consistent with previous years. | Our review of accounting policies for the Pension Fund has not highlighted any issues which we wish to bring to your attention. | ● GREEN |

**Assessment**
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

# Other communication requirements

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

| | Issue | Commentary |
|---|---|---|
| 1 | **Matters in relation to fraud** | We have previously discussed the risk of fraud with the Audit, Risk and Governance 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. |
| 2 | **Matters in relation to related parties** | We are not aware of any related parties or related party transactions which have not been disclosed. |
| 3 | **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. |
| 4 | **Written representations** | A standard letter of representation has been requested from the Pension Fund, which is included within the Audit, Risk and Governance Committee. |
| 5 | **Confirmation requests from third parties** | We requested from management permission to send confirmation requests to Fund Managers, the Custodian, valuers and your bank for your cash balances (outside of the cash held by your fund managers). We are still awaiting responses to some of our requests. |
| 6 | **Disclosures** | We did not identify any material omissions in the financial statements. |
| 7 | **Significant difficulties** | We did not identify any issues with accounts closedown, production of draft accounts or quality of the working papers. |
| 8 | **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 Funds Annual Report (see Appendix D). |

# Independence and ethics

### Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

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

Details of fees charged are detailed in Appendix B.

### Audit and Non-audit services

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

| Service | | |
|---|---|---|
| **Audit related** | **£** | **Description and Impact** |
| • IAS 19 Assurance to other auditors | 1,737 | The IAS 19 Assurances fees relate to our responsibilities in providing written assurance (on controls over information provided by the Pension Fund to the actuary) to PSAA appointed auditors of admitted bodies.<br>The provision of these assurances does not impact on our assessment that that we are independent and are able to express an objective opinion on the financial statements. |

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund / Administering Authority's policy on the allotment of non-audit work to your auditors. None of the services provided are subject to contingent fees.

# 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 are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

| | Detail | Fund Account £'000 | Net Asset Statement £' 000 | Impact on total net assets £'000 |
|---|---|---|---|---|
| 1 | In the draft accounts of the Pension Fund it had accounted for the upfront payments from employers for deficit funding contributions and service rate contributions as a receipt in advance. In doing so it showed a current liability and long term liability of £68.5 million each. The Pension Fund's basis for accounting this way was on a matching principle and to be consistent with the accounting used by Lancashire County Council, the administering authority.<br>Our view is that the income received upfront by the Pension Fund, whether it is to fund the pension deficit or normal contributions, should be treated the same. In both circumstances the employer organisation is making these payments in advance to obtain a discount, but can only do so, as the actuary's schedule of rates and adjustments certificate allows it by certifying it due. Our view is that for the Pension Fund accounts it is revenue recognition that is the important consideration. These payments would meet the definition of income for the Pension Fund as there is no prospect of this cash being paid back These amounts are due to the Pension Fund in 2017/18 and are an asset of the Pension Fund in 2017/18, which the Pension Fund has invested in 2017/18 to generate income in the Pension Fund accounts. Therefore the £137 million should be accounted for as income in the Pension Fund accounts in 2017/18. The required amendments are: | | | |
| | Pension Fund Account – Contributions | 137,000 | | 137,000 |
| | Net Asset Statement – Current Liabilities | | (68,500) | |
| | Net Asset Statement – Long Term Liabilities | | (68,500) | |
| | **Overall impact** | **£137,000** | **£137,000** | **£137,000** |

# Audit Adjustments (continued)

## Misclassification and disclosure changes

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

| Disclosure omission | Detail | Adjusted? |
|---|---|---|
| **Notes to the Financial Statements – 1. Pension Fund operation and membership** | The narrative has been amended to provide details of the employers upfront contributions paid in April 2017 but in respect of 2018/19 and 2019/20. | ✓ |
| **Accounting Policies – 3.1 – Fund Account – Revenue Recognition** | The accounting policy has been updated to reflect the fact that upfront payment of employer deficit funding is should not be accounted for as accrued income. | ✓ |
| **Note 10 – Management expenses** | Investment management expenses have been amended for 2017/18, and re-stated for 2016/17, so that additional fees are no longer netted off investment values. This re-statement has a corresponding impact on the change in market value of investments but with no overall impact on the net assets of the scheme. The amounts involved are:<br>• Investment management expenses 2016/17 – amended from £42.7 million to 63.5 million<br>• Investment management expenses 2017/18 – amended from £52.3 million to 54.1 million<br><br>Investment management expenses are broken down in note 10.1 with the main changes being:<br>• Fund value based management fees for 2016/17 re-stated from £31.8 million to £42.7 million. The similar figure for 2017/18 amended from £45.3 million to £41.8 million<br>• Performance related fees for 2016/17 re-stated from £7.1 million to 17.5 million. The similar figure for 2017/18 amended from £6.3 million to £11.5 million. | ✓ |

# Audit Adjustments (continued)

| Disclosure omission | Detail | Adjusted? |
|---|---|---|
| **Note 13 – Reconciliation of movement in investments and derivatives** | In the draft accounts the amounts for investments managed by LPPI were previous shown as one figure split across the different types of investments including:<br>• Private equity - £531.0 million<br>• Long term credit investments - £1,071.1 million<br>• Liquid credit (cash and bonds) - £183.8 million<br>• Global Equity Fund - £3,214.4 million<br>• Infrastructure - £727.4 million<br><br>In the amended accounts the amounts in each type of investment managed by LPPI have been broken down into the individual named companies to comply with CIPFA guidance. | ✓ |
| **Note 20 – Current and long term liabilities** | Current and long term liabilities have been amended to reflect the fact that £137.0 million of employers payment upfront normal and deficit funding contributions, shown as due in 2018/19 and 2019/20, should have been accounted for as income to the Pension Fund in 2017/18. The amendments were:<br><br>• Current Liabilities – contributions received in advance – amended from £68.5 million to nil;<br>• Current Liabilities – Analysis of creditors – Other local authorities – amended from £70.4 million to £1.9 million;<br>• Long term Liabilities – Analysis of creditors – Other local authorities – amended from £68.5 million to nil. | ✓ |

# Audit Adjustments (continued)

### Impact of unadjusted misstatements

There are no such unadjusted items as a result of our audit

### Impact of prior year unadjusted misstatements

There were no unadjusted misstatements in the 2016/17 financial statements.

# Fees

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

## Audit Fees

| | Proposed fee | Final fee |
|---|---|---|
| Pension Fund Audit | £34,169 | £34,169 |
| **Total audit fees (excluding VAT)** | **£34,169** | **£34,169** |

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

## Non Audit Fees

| Fees for other services | Fees |
|---|---|
| **Audit related services:** | |
| • IAS 19 Assurance to other auditors | £1,737 * |
| | **£1,737** |

* The IAS19 fee is for our responsibilities in providing written assurances (on controls over information provided by the Pension Fund to the actuary) to PSAA appointed auditors of admitted bodies has yet to be approved by PSAA for 2017/18.

# Audit opinion

## 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

### Opinion

We have audited the pension fund financial statements of Lancashire County Council (the 'Authority') for the year ended 31 March 2018 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 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund 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.

### Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and 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.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

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

### Other information

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

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

We have nothing to report in this regard.

### Opinion on other matter required by the Code of Audit Practice 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 financial statements the other information published together with the pension fund financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the Annual Report for the financial year for which the pension fund 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 have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

### Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund 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 2017/18, which give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Director of Finance 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 the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit, Risks and Governance Committee is Those Charged with Governance.

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

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

A further description of our responsibilities for the audit of the pension fund 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.

To be signed

Michael Thomas
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
Liverpool
L3 1PS

To be dated

# Audit opinion

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

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

### Opinion

The pension fund financial statements of Lancashire County Council (the "Authority") for the year ended 31 March 2018 which comprise the Fund Account, the Net assets statement and the notes to the financial statements, including a summary of significant accounting policies, of Lancashire County Pension Fund are derived from the audited pension fund financial statements for the year ended 31 March 2018 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18 and applicable law.

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

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

### Who we are reporting to

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

### The audited financial statements and our Report thereon

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

### Director of Finance responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

### Auditor's responsibility

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

To be signed

Michael Thomas
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Royal Liver Building
Liverpool
L3 1PS

To be dated