



The Audit Findings for Lancashire County Pension Fund

Year ended 31 March 2020

29 November 2020



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

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Lancashire County Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic had the potential to have a significant impact on the normal operations of the Pension Fund.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.</p>	<p>Our audit risk assessment considered the impact of the pandemic on our audit. We reported a financial statement risk in respect of Covid -19. Further detail is set out on page 5.</p> <p>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to work from home and had to use remote access financial systems, video calls, physical verification of completeness and accuracy of information produced by the entity. The draft statement of accounts were published on the Council's website on 27 July 2020.</p>
Financial Statements	<p>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:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. 	<p>Our audit work was completed remotely from July to September. Our findings are summarised on pages 4 to 11. We have identified one disclosure amendment in the financial statements. This has not resulted in any adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix D) or material changes to the financial statements, subject to the outstanding matters listed on the page 4.</p> <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting asset valuation material uncertainties.</p>

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

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

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 based on the same benchmark and the same percentages as reported in our audit plan but these were based on the estimated net assets at year end based on month 10's forecast. However, due to the Covid-19 pandemic's impact on investment valuations, we have reduced our materiality levels based on the actual net assets levels as per the draft financial statements.

	Pension Fund (£)	Qualitative factors considered
Materiality for the financial statements	84,000,000	This equates to around 1% of your forecast gross operating expenditure for the year and is considered to be the level above which users of the accounts would wish to be aware in the context of overall expenditure.
Performance materiality	63,000,000	Assessed to be 75% of financial statement materiality, to reflect the strong recent track record for producing accurate financial statements.
Trivial matters	4,000,000	This equates to 5% of materiality.

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 25 January 2021 and in advance of the national deadline, as detailed in Appendix D. These outstanding items include:

- updated review of post balance sheet events;
- final quality assurance procedures;
- receipt of management representation letter; and
- review of the final set of financial statements.

Significant audit risks

Risks identified in our Audit Plan

Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;

- remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation
- volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates
- for instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.
- whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate, management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- worked with management to understand the implications the response to the Covid-19 pandemic had on the Fund's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach
- liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise
- considered the Fund's latest risk register to identify risks arising from Covid-19
- evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic including management's assessment of the impact of Covid-19 upon employer covenants and forecast cashflows
- evaluated whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely
- evaluated whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure
- evaluated whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations, including direct property, and
- discussed with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

Our audit work has not identified any issues in respect of the Covid-19 risk.

We have drawn the attention of users of the statement of accounts to the inclusion of a material uncertainty regarding the valuation of the Fund's directly held property by means of an emphasis of matter in our audit opinion. This is as detailed in relation to our response to the significant risk of the valuation of level 3 pooled and level 2 directly held investment properties.

Significant audit risks

Risks identified in our Audit Plan

Revenue recognition – the risk of revenue including fraudulent transactions

Under ISA (UK) 240 there is a 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.

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.

Auditor commentary

We rebutted this risk as part of our risk assessment process. This assessment remains appropriate.

In addition, in accordance with PN10, the audit team have considered the risk of fraudulent manipulation of expenditure. We do not consider that this is a significant risk for the Pension Fund, after consideration of the following:

- The staff preparing and approving the accounts are consistent with those in previous years.
- There have been no changes in accounting processes and controls in the year.
- There have been no significant unexplained movements in funding position.
- There have been no changes in the methodology for calculation of estimates.
- There have been no instances of adjustments being posted by a senior finance officer without independent authorisation.

Management over-ride of controls

Under ISA (UK) 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities. The auditing standards do not allow this presumption to be rebutted by the auditor.

We therefore identified management over-ride 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,
- gained an understanding of the control environment in the pool Local Pensions Partnership (LPP) from the internal audit reporting during the year, and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

The valuation of Level 3 investments

The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.

By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.

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

Auditor commentary

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
- 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 2020 with reference to known movements in the intervening period
- where available reviewed investment manager service auditor report on design effectiveness of internal controls
- reviewed any transfers to the Pool for any level 3 investments during the year

Our audit work has not identified any issues in respect of the risks relating to the valuation of Level 3 investments as at 31 March 2020.

Significant findings – going concern

Our responsibility

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

Going concern commentary

Management's assessment process

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

Auditor commentary

- The Pension Fund's use of the going the concern basis of accounting is appropriate.
- The last triennial valuation, as at 31 March 2019 reported a funding level of 100%.
- The Pension Fund has more than sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions.
- There is no plan by the Ministry of Housing, Communities and Local Government to wind up Lancashire County Council Pension Scheme.
- The Pension Fund continues to operate as usual in 2020/21. Contributions and investment income continue to be received as expected.

Work performed

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

- We have reviewed managements assessment that the financial statements are prepared on a going concern basis.
- No material uncertainty is identified.
- There are sufficient assets to meet the liabilities as they fall due for the foreseeable future.
- The last triennial valuation, as at 31 March 2019 reported a funding level of 100%.
- The Pension Fund continues to operate as usual with contributions and investment income being received and benefits being paid.

Concluding comments

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



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

Significant findings – other issues





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

Issue	Commentary	Auditor view
<p>Restitution for McCloud</p> <p>In 2018 the Court of Appeal ruled that there was age discrimination in the judges and firefighters pension schemes where there was transitional protections given to scheme members. The legal ruling around age discrimination (McCloud - Court of Appeal) also has implications for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>The Pension fund had an initial discussion with Mercer, the Fund actuary, on the potential impact and their advice is that they expect the impact to be on an increase in the administration burden on the pension fund rather than a material impact on liabilities at whole fund level.</p> <p>In addition, the production of the IAS26 statement Mercer made an allowance for McCloud as a past service cost (as well as the 2019 valuation). Mercer's calculations of the additional liabilities and service costs have generally been done in line with the proposed underpin in the consultation.</p>	<ul style="list-style-type: none"> • The Ministry of Housing, Communities & Local Government published its consultation on reforms to public sector pension schemes on 16 July 2020. Initial feedback from the Government Actuary Department (GAD) indicates that this is likely to lead to a reduction in the IAS 19 liability previously calculated. • The auditor has concluded that the consultation is an event after the reporting period which provides an indication of possible remedy. However, as there remain a number of uncertainties before this is enacted, and as the outcome is unclear the firm does not regard publication of the consultation to be an adjusting event. • For 2019/20 accounts we expect the pension liability to be remeasured, as normal, via an actuarial report, and to take account of best estimates in relation to the impact of McCloud judgements. We do not expect the impact to the liability to be material.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	<p>The Pension Fund has investments in pooled property investments, private equity long term credit and infrastructure investments that in total are valued on the balance sheet as at 31 March 2020 at £3.471 billion.</p> <p>Management have disclosed a material estimation uncertainty due to the Covid-19 pandemic in relation to indirectly held property holdings.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on valuations provided by the funds which the Fund invests in. The value of the investment has increased by £61.6m in 2019/20, due to a combination of purchases and sales, some transitioning to fair value level 2 and both realised and unrealised gains and losses during the year.</p>	<p>Management determine the value of Level 3 Investments through placing reliance on the expertise of the funds and investment managers. As such we have sought confirmations of year end valuations. We have also tested a sample of level 3 investments to audited accounts to determine if the values are estimated that they are reasonable.</p> <p>We have found an immaterial estimation uncertainty of around £50.5m in the valuation of Level 3 investments. Around 80% of this was due to LPPI investments being valued in the accounts based on their 31 December 2019 valuation due to the unavailability of audited accounts as at 31 March 2020 until after the accounts were prepared. Overall, we are satisfied that the estimates are appropriately disclosed in the accounts.</p>	
Level 2 investment	<p>The Pension Fund have investments in corporate and overseas government bonds and direct property holdings that in total are valued on the balance sheet as at 31 March 2020 at £1.136 billion.</p> <p>Management have disclosed a material estimation uncertainty due to the Covid-19 pandemic in relation to directly held property holdings.</p> <p>The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management rely on the information which they are given from the various fund managers and engage the services of a property valuer for direct property. The value of the investment has increased by £374m in 2019/20.</p>	<p>Management determine the value of Level 2 Investments through placing reliance on the expertise of the various fund managers and a property valuer. As such we have sought confirmations of year end valuations. We have also tested a sample of unit values used to value level 2 investments to externally quoted information sources, or where they are not quoted, to unit values provided by the investment manager's own independent custodian.</p> <p>We have found an immaterial estimation uncertainty of around £5.5m in the valuation of Level 2 investments. This was due to LPPI investments being valued in the accounts based on their 31 December 2019 valuation due to the unavailability of audited accounts as at 31 March 2020 until after the accounts were prepared. Overall, we are satisfied that the estimates are appropriately disclosed in the accounts.</p> <p>For a similar reason, there we identified an immaterial estimation uncertainty of around £6.1m in the valuation of Level 1 investments.</p>	

Assessment

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

Other matters for communication

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	Auditor commentary
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 other 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.
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 which is included in the Audit, Risk and Governance Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to Fund Managers, the Custodians and your bank for cash balances (outside the cash held by your fund managers). This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Disclosures	Our review found no material omissions in the financial statements. Details of adjustments and disclosure changes can be found at Appendix B.
Audit evidence and explanations/significant difficulties	<p>All information and explanations requested from management was provided.</p> <p>The financial statements were received on 27 July 2020, and published in advance of the statutory deadline.</p> <p>The financial statements were prepared to a good standard with embedded quality review processes in place.</p> <p>Working papers were available at the start of the audit and were detailed, and clear to understand.</p> <p>The responses to our audit samples and queries were comprehensive and timely.</p>
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 alongside the opinion of the Pension Fund Accounts.

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C.

Audit and Non-audit services

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

	Fees £	Threats identified	Safeguards
Audit related IAS19 assurance procedures for other bodies admitted to the Pension Fund	15,750	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,750 in comparison to the total fee for the audit of £31,310 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Audit related Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit.	284,000	Self Review	This is not considered a significant threat as the audit of Lancashire County Pension Fund and Lancashire County Council is undertaken by a completely separate team from the Public sector Services arm of the Firm, as opposed to the commercial audit team that delivers the LPP audits. There are different Engagement Leads in place for both audits, and where we seek to place reliance on the work performed on the LPP audit, this is treated as an auditor's expert for the purposes of our work.

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 and Governance Committee. None of the services provided are subject to contingent fees.

Follow up of prior year recommendations

We identified the following issues in the audit of Lancashire County Pension Fund's 2018/19 financial statements, which resulted in 1 recommendation being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations and note it is still to be completed.

Assessment	Issue, risk and recommendation previously communicated	Update on actions taken to address the issue
X	<p>Issue and Risk</p> <ul style="list-style-type: none"> Manual journals within the financial ledger are input by approved personnel, but they are not subject to authorisation controls at the time of input. The risk is that the lack of authorisation controls at the time of input creates a higher level of risk of error or manipulation. <p>Recommendation</p> <p>Review the authorisation procedures in place over journal input.</p>	<p>Management response in 2018/19 IAS 260 report</p> <p>Personnel based controls are in place, with only finance staff able to post journals. As such, the need for secondary authorisation is considered to be very low. There is also no incentive for finance personnel to manipulate journals.</p> <p>Updated management response in 2019/20</p> <p>The same personnel-based controls remain in place as in 2018/19, as does the lack of incentive for finance personnel to manipulate journals. Whilst we accept 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 an ability to post journals) is carried out at least annually.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Appendix B

Audit adjustments

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

Impact of adjusted misstatements

There are no adjusted misstatements identified as part of the 2019/20 audit.

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	Auditor recommendations	Adjusted?
Note 22 – Related Parties	The draft accounts stated that the Local Pensions Partnership had repaid £12.5m loan finance to Lancashire County Council. The repayment was in fact £17.5m	Update the disclosure in the final version of the accounts	✓
Note 10 – Management expenses	The audit fee disclosure required updating to reflect the increased IAS 19 assurance work fee as reported in Appendix C and to remove reference to £1,500 fee for 2018/19 work on McCloud.	Update the disclosure in the final version of the accounts	✓
Annual Report	Some additional disclosures were required for the Annual Report to comply with the 'Preparing the Annual Report' guidance from CIPFA.	Include contact details for key Fund advisors and add some commentary on the movement of non-investment assets and liabilities.	✓

Impact of unadjusted misstatements

There are no unadjusted misstatements identified as part of the 2019/20 audit.

Impact of prior year unadjusted misstatements

There are no prior year adjusted misstatements identified as part of the 2019/20 audit.

Appendix C

Fees

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

Audit fees	Proposed fee	Final fee
Pension Fund	31,310	36,000
Total audit fees (excluding VAT)	£31,310	£36,000

The Public Sector Audit appointments scale fee is £26,310. The pension fund has disclosed £31,310 within the financial statements which is in line with our Audit Plan.

Across all suppliers, and sectors (public and private), the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, as well as to undertake additional and more robust testing. As a firm, we are absolutely committed to meeting the expectations of the FRC and other key stakeholders with regard to audit quality and public sector financial reporting. To ensure the increased regulatory focus and expectations are fully met we have been required to increase our fees on all our Local Government Pension Scheme clients.

The final fee is due to be settled by Public Sector Audit Appointments. We understand that PSAA has approved in principle the planned fee of £31,310, but this is subject to their final review.

In addition, Covid-19 has impacted on the audit of your financial statements in several ways. These impacts include:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has driven additional areas of audit work
- Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions.
- Remote working – the most significant impact in terms of delivery is the move to remote working (both our teams and yours). We, as other auditors, are experiencing considerable delays as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of relevant staff (due to shielding, being diverted to other essential functions, or other additional Covid related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming. The Government's current expectation to work from home as the default position is now likely to make this a greater issue for the audit than if we had been able to gradually return to our offices and Fund premises over the autumn of this year, as originally anticipated.

We have been discussing the impact Covid-19 has been having on audits with PSAA over the last few months and note that these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

To date, we estimate that the issues highlighted above are increasing the time taken on audits by an average of 25%, in some cases higher. We understand from discussions with the Institute of Chartered Accountants in England and Wales that this is similar to other firms. We have proposed an additional 15% fee in relation to the impact of Covid-19.

Pleased be assured that we are trying to mitigate this as far as possible through reduced travel time and travel costs and will be looking how we can absorb some of the remaining overrun ourselves. However, it is unlikely that this will not be sufficient to cover the full additional cost. We are aware that the Pension Fund's finances are constrained and we will seek to minimise these costs as best we can and will also consider our own performance in delivering to the November deadline. We will discuss any variations to the planned audit fee with the Director of Finance before reporting to the Audit, Risk and Governance Committee at its next meeting.

Appendix C

Fees

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services - Provision of IAS 19 Assurances to Scheme Employer auditors at £875 per letter*	£9,000	£15,750
Total non- audit fees (excluding VAT)	£9,000	£15,750

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

* This is higher than the expected fee of £500 per letter as this had not factored in the additional work on the triennial revaluation

For completeness we are reporting to you that the commercial arm of our firm undertakes the audit of the Local Pensions Partnership, of which Lancashire County Council is one of the two founding members, each holding 50%. Details of the work performed, and the fees charged, are shown below for transparency purposes.

Audit related Service	Proposed fee	Final fee
Local Pensions Partnership Authorised Contractual Scheme and investment funds structures audit	£284,000	£354,770

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 of Lancashire County Pension Fund

Opinion

We have audited the financial statements of Lancashire County Pension Fund (the 'pension fund') administered by Lancashire County Council (the 'Authority') for the year ended 31 March 2020 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 2019/20.

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 2020 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 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Chief Executive and Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

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

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

In our evaluation of the Chief Executive and Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and

analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in Note 5 to the financial statements, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. Valuations of pooled and directly held property valuations have been reported on the basis of material valuation uncertainty. This was therefore disclosed in the audited accounts for the pooled property investments and the valuation reports of the pension fund's directly held property investments. Our opinion is not modified in respect of this matter.

Other information

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

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

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Pension Fund Accounts, the Annual Governance Statement and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

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

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

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

Audit opinion

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

As explained more fully in the Statement of Responsibilities set out on page 28, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Executive and Director of Resources. The Chief Executive and Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Chief Executive and Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Chief Executive and Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Dossett, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
London

[Date]

