

Response to Materiality query from Pension Fund Committee

External Auditors

Our responsibility as External Auditors is to give an opinion on whether the Pension Fund's accounts are materially correct. Determining materiality for the financial statements as a whole is a matter of professional judgment and is affected by the engagement team's perception of the financial information needs of financial statements users. Our approach to setting materiality is in line with International Accounting Standards and in particular ISA 320 "Materiality in Planning and Performing an Audit".

For Lancashire County Pension Fund our selected benchmark is the net assets of the Fund as this is deemed to be the key measure which is monitored in terms of the performance of the Fund. The % applied to determine materiality is based on an industry standard scale which ranges from 0.25% - 2% - however for LGPS audits we cap it at 1% for the reasons outlined below.

Unlike other occupational pension schemes, there is no requirement for a separate Independent Auditor's Statement about Contributions in Local Government Pensions and thus, we are only required to determine materiality for the financial statements as a whole. Due to the size/profile of Local Government Pension Schemes, the benchmark percentage utilised to determine materiality is expected to decrease appropriately from the upper limit – which we have complied with in setting materiality at 1%. For 2021-22 this equates to £105.3m.

The approach which we have adopted is consistent with all audits of local government pensions schemes, to our knowledge, and certainly is the same approach for all LGPS audits performed by Grant Thornton in the North. Also, the materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause us to evaluate them as material even if they are below materiality. When evaluating the effect on the financial statements of all uncorrected misstatements, we consider not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence.

Equally, whilst it may be unlikely that we find the contributions/benefits payables figure to be materiality misstated (due to the relative size of the balance compared to materiality) we do still perform substantive testing on Fund Account transactions made in year and agree these items back to source evidence including bank receipt/payment – for any issues identified we consider if they are isolated or whether there is potentially a wider impact across the whole population and so will either extend our sample testing or extrapolate errors across the population and determine a potential error to report in our ISA 260 Audit Findings report to members of the Committee. We are required to report all errors above our triviality threshold (£5.265m) to the Committee however we keep a record of all errors identified in the course of the audit and will discuss these with finance officers at the Pension Fund if there are issues which are required to be addressed.

LCPF Finance

The LCPF finance team have various procedures and checks in place to ensure accuracy of reporting.

On a quarterly basis, performance and budget monitoring & forecast reports are produced for LPPI and the Pension Fund Committee respectively, for which finance review the income and expenditure against the budget, investigate variances and liaise with the relevant teams for any unusual transactions. For most costs, a comparison can be made back to third party systems such as contributions – EPIC and benefits paid – Altair. Where there isn't a third-party system to refer to such as Oversight and Governance fees, we review the codes on a transactional level.

Most costs through Oversight and Governance are invoiced fees, which can be compared back to an invoice tracking spreadsheet which holds the amount (net + VAT), the invoice date & description and supplier. The budget monitoring report is reviewed by the Pension Fund Accountant, Pension Fund Manager and Head of Fund before being submitted to the Pension Fund Committee.

When producing the annual accounts, the CIPFA code of practice is reviewed to ensure items are being reported as specified. Within the production of the annual accounts, working papers are created for each note in the accounts and contain an analytical review to highlight significant year on year variances. These are investigated and reasons noted on the working papers. The working papers are reviewed by the Pension Fund Manager and subsequently External Audit.