

Independent auditor's report to the members of the London Pensions Fund Authority on the pension fund financial statements

Opinion

Our opinion on the pension fund financial statements is unmodified

We have audited the pension fund financial statements of the London Pensions Fund Authority (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the Fund Accounts, 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 2018/19.

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 2019 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 2018/19; 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 financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We 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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Section 151 Officer 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 the pension fund for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Overview of our audit approach



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- Overall materiality: £56,500,000 which represents 1% of the fund's net assets;
- The key audit matter we identified was Valuation of Level 3 Investments
- The scope of our audit of the pension fund financial statements included obtaining supporting evidence, on a sample basis, for the pension fund's income, expenditure, assets and liabilities.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters

were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the matter was addressed in the audit
<p>Valuation of Level 3 Investments</p> <p>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.</p> <p>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 (£1.019 billion) and the sensitivity of this estimate to changes in key assumptions</p> <p>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.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value of these investments as at 31 March 2019.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>Our audit work included, but was not restricted to:</p> <ul style="list-style-type: none"> • gaining an understanding of the Authority’s process for valuing Level 3 investments and evaluating the design of the associated controls; • evaluating the nature and basis of estimated values and considering the assurance management has over the year-end valuations provided for these types of investments; • evaluating the competence, objectivity and capability of the expert used to value Level 3 investments at year end and gaining an understanding of how the valuation of these investments has been reached; and • testing the valuations by obtaining audited accounts at the latest date for individual investments, agreeing these to the Authority’s investment manager reports as at that date then reconciling those values to the values as at 31 March 2019 with reference to known movements in the intervening period. <p>The Authority’s accounting policy on the valuation of investments is shown in note 4 to the Pension Fund Accounts and related disclosures are included in note 12.</p> <p>Key observations</p> <p>From the work completed we identified that the valuation of the LPPI Private Equity Fund was updated by the Authority after the financial statements were received for audit, with the updated valuation £6.9 million lower than that recorded within the financial statements. Management decided not to amend the financial statements on audit on the grounds of materiality.</p> <p>No other issues were identified from the work we performed in this area. Therefore, we obtained sufficient audit assurance to conclude that, subject to the item above:</p> <ul style="list-style-type: none"> • the basis of the valuation was appropriate, and the assumptions and processes used by management in determining the estimates were reasonable; • the valuations of Level 3 investments disclosed in the financial statements are reasonable.

Our application of materiality

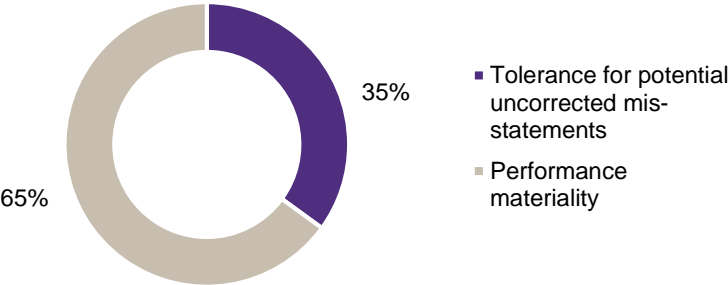
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work.

Materiality was determined as follows:

Materiality Measure	Authority
Financial statements as a whole	£56,500,000 which is 1% of the pension fund’s net assets. This benchmark is considered the most appropriate because we consider users of the pension fund financial statements to be most interested in the value of pension fund assets that finance their future pensions. Materiality for the current year is at the same percentage level of net assets as we determined for the year ended 31 March 2018 as we did not identify any significant changes in the pension fund or the environment in which it operates.
Performance materiality used to drive the extent of our testing	65% of financial statement materiality
Specific materiality	No specific materiality levels were determined.
Communication of misstatements to the Audit and Risk Committee	£2,825,000 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.

Overall materiality – Authority



An overview of the scope of our audit

Our audit approach was a risk-based approach founded on a thorough understanding of the pension fund’s business and is risk based, and in particular included:

- Gaining an understanding of and evaluating the pension fund’s internal control environment, including its financial and IT systems and controls;
- Documenting our understanding of the processes applied by management over contributions, pension benefits payable, pension fund membership data and transfer of data to the pension fund actuary, and valuation of level 3 investments;
- Testing the operational effectiveness of the associated controls applied by management over contributions, pension benefits payable, pension fund membership data and transfer of data to the pension fund actuary; and
- Performance of full audit procedures for the Authority, which represents 99% of the pension fund’s total income, 89% of its total expenditure and 100% of its net assets.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit are to identify and assess the risks of material misstatement of the financial statements due to fraud or error; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud or error; and to respond appropriately to those risks. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

In identifying and assessing risks of material misstatement in respect of fraud, including irregularities and non-compliance with laws and regulations, our procedures included the following:

- We obtained an understanding of the legal and regulatory frameworks applicable to the Authority and the pension fund in particular. We determined that the following laws and regulations were most significant:
 - the Local Government Pension Scheme Regulations 2013 (as amended)
 - the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
 - the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
 - the Local Government Pension Scheme (Amendment) Regulations 2018
- We understood how the Authority is complying with those legal and regulatory frameworks by making inquiries of the Authority’s monitoring officer and internal auditors. We corroborated our inquiries through our review of Board minutes and papers provided to the Audit and Risk Committee.
- We assessed the susceptibility of the Authority’s pension fund financial statements to material misstatement, including how fraud might occur. Audit procedures performed by the engagement team included:
 - identifying and assessing the design effectiveness of controls management has in place to prevent and detect fraud;

- understanding how those charged with governance considered and addressed the potential for override of controls or other inappropriate influence over the financial reporting process;
 - challenging assumptions and judgments made by management in its significant accounting estimates, including Level 3 investment valuations; and
 - identifying and testing journal entries, in particular any journal entries posted which we deemed to be unusual.
- We did not identify any key audit matters relating to irregularities, including fraud.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Operational Accounts and Residual Liabilities Accounts. 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 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 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 the 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 and our knowledge of the pension fund the other information published together with the pension fund financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 10, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer. The Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Section 151 Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Risk 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 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.

Other matters which we are required to address

We were reappointed by Public Sector Audit Appointments Limited in December 2017 to audit the pension fund's financial statements for the year ending 2019 and subsequent financial periods. The period of total uninterrupted engagement is seven years, covering the years ending 2013 to 2019.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Authority and we remain independent of the Authority in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit and Risk Committee.

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.

Ciaran McLaughlin

Ciaran McLaughlin, Key Audit Partner

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

London

26 September 2019