

### Open Report on behalf of Executive Director of Finance and Public Protection

Report to:	<b>Lincolnshire Pension Board</b>
Date:	<b>15 April 2016</b>
Subject:	<b>Audit of the Pension Fund</b>

#### Summary:

This paper presents the latest internal and external audit reports for the Lincolnshire Pension Fund, and details the audit process for the Fund. Ashley Simons, from the LCC internal audit team, will present on how the internal team audit the Pension Fund.

#### Recommendation(s):

That the Board consider the report and agree any actions and training needs arising.

#### Background

1. As expected with a Pension Fund of £1.7bn, the Lincolnshire Pension Fund has strong controls in place to ensure that all investments are accounted for correctly, all pensions are paid correctly, that risks are appropriately managed and that controls are in place to ensure that the Fund is well governed. To ensure that these controls are adequate, the Fund is audited by both the internal team in Lincolnshire County Council (LCC), and by the Council's external auditors, KPMG.
2. Internal audit generally look at an aspect of the Fund each year, and the work they do compliments the work of the external audit team. The internal audit team's last piece of work concentrated on the transition of the administration function from Mouchel to the shared service arrangement with West Yorkshire Pension Fund (WYPF). The findings are attached at appendix A.
3. Ashley Simons, Senior Auditor within the LCC Audit team, will present to the Board on the work of internal audit.
4. The Pension Fund Accounts form part of LCC's Statement of Accounts, and are therefore audited annually. This is a statutory requirement and auditors must comply with International Standard on Accounting (ISA) 260. Whilst

the focus is on the Fund's accounts, the Pension Fund Annual Report is also considered by external audit. The report on the 2014/15 financial statements is attached at appendix B.

5. The headlines of the KPMG report have been extracted and are shown below:

- **Proposed audit opinion**

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015. At the date of this report our audit of the Fund's financial statements is substantially complete. Our remaining completion procedures are carried out jointly with those for the main audit. This includes obtaining a signed management representation letter, which covers the financial statements of both the Authority and the Fund. We also need to complete our final checks on the content of the pension fund's annual report and issue our separate opinion on that report.

- **Audit adjustments**

We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments. The Authority made a small number of non-trivial adjustments, most of which were of a presentational nature.

- **Key financial statement audit risks**

We review risks to the financial statements on an ongoing basis. We identified the following key financial statements audit risk in our 2014/15 External audit plan issued in March 2015.

- From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members.

We have worked with officers throughout the year to discuss this key risk and our detail findings are reported in section 3 of this report.

- **Accounts production and audit process**

The Authority continues to have good processes in place for the production of the Fund's financial statements and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. We have worked with officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.

- **Control environment**  
The Fund's organisational control environment is effective overall. We have though highlighted one issue which emerged in the year relating to the lack of a reconciliation between information held on the Altair pensions administration system and the pensions payroll system. The Authority is taking the required action to rectify this issue.
6. ISA 260 requires the external auditors to communicate their views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. KPMG also assess the Authority's process for preparing the Fund's financial statements and its support for an efficient audit. The criteria considered, and how KPMG thought the Fund measured against them, is set out below:
- **Accounting practices and financial reporting**  
The Authority has good financial reporting arrangements over the Fund's financial statements in place. We consider that accounting practices are appropriate.
  - **Completeness of draft accounts**  
We received a complete set of draft accounts on 9 June 2015.
  - **Quality of supporting working papers**  
Our Accounts Audit Protocol discussed with the Senior Pensions Accountant, set out our working paper requirements for the audit. The quality of the working papers provided met the standards specified in our Accounts Audit Protocol.
  - **Critical accounting matters (key audit risks)**  
We have discussed with officers throughout the year the areas of specific audit risk and undertaken specific audit procedures. There are no matters to draw to your attention.
  - **Response to audit queries**  
Officers resolved audit queries in a reasonable time.
7. All internal and external audit reports are brought to the next possible Pensions Committee, and are also taken to the Council's Audit Committee.

## Conclusion

8. The Lincolnshire Pension Fund is managed within a strong control environment, and is audited regularly by both an internal audit team and by the Council's external auditors. Any issues raised by the auditors are considered and responded to, and where relevant, an action plan is put in place to improve controls.

## Consultation

### a) Policy Proofing Actions Required

n/a

## Appendices

These are listed below and attached at the back of the report	
Appendix A	Lincolnshire Pension Fund - Internal Audit Report
Appendix B	Lincolnshire Pension Fund - External Audit Report

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Jo Ray, who can be contacted on 01522 553656 or [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk).