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Report to those charged with governance (ISA 260) 2012/13

Lincolnshire County Council Pension
Fund

September 2013



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tony Crawley, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This report summarises the key issues identified during our audit of Lincolnshire County Council Pension Fund's (the Fund's) financial statements for the year ended 31 March 2013.

Scope of this report

The Audit Commission's *Code of Audit Practice* requires us to summarise the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified and report to those charged with governance (in this case the County Council Audit Committee). We are also required to comply with International Standard on Auditing ('ISA') 260 which sets out our responsibilities for communicating with those charged with governance.

This report meets both these requirements. It summarises the key issues identified during our audit of the Fund's financial statements for the year ended 31 March 2013.

Some of our responsibilities under ISA 260 relate to Lincolnshire County Council ('the Authority') as administering authority as a whole and are discharged through our reporting to the Authority's Audit Committee. This includes:

- Declaring our independence and objectivity;
- Obtaining management representations; and
- Reporting matters of governance interest, including our audit fees.

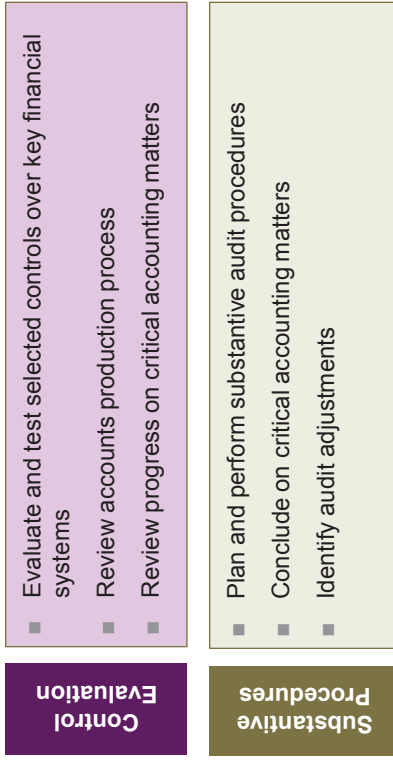
Audit of the pension fund

As with the main audit of the Authority, our audit of the Fund follows a four stage audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during April 2013 (interim audit) and June 2013 (year end audit).

We carried out the following work:



- Evaluate and test selected controls over key financial systems
- Review accounts production process
- Review progress on critical accounting matters

- Plan and perform substantive audit procedures
- Conclude on critical accounting matters
- Identify audit adjustments

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the findings from our audit work on the Fund's accounts in more detail.

Our recommendations are included in Appendix 1.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages. The remainder of this report provides further details on each area.

<p>Proposed audit opinion</p>	<p>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 2013.</p> <p>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.</p>
<p>Audit adjustments</p>	<p>We are pleased to report that our audit of the Fund's financial statements did not identify any material adjustments.</p>
<p>Accounts production and audit process</p>	<p>The Authority has 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.</p> <p>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.</p>
<p>Control environment</p>	<p>Controls over the Fund's key financial systems are sound. We did not identify any specific issues we wish to highlight to you.</p>

We have identified no issues in the course of the audit that are considered to be material.

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 2013.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 23rd September 2013.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements.

We noted an error in Note 8 (Contributions Receivable) to the accounts where an adjustment of £611K was needed between deficit funding and normal funding to correct a figure that had been incorrectly entered. This is a disclosure note only and there is no impact on the total contributions. The analysis has been corrected.

Completion

At the date of this report, our audit of the Fund's financial statements is substantially complete.

Before we can issue our opinion we require a signed management representation letter. The representations in relation to the Fund will be included in the Authority's representation letter.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements. A full declaration of our independence is set out in the main *ISA 260 Report* for the Authority.

Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not

inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report at the same time as our opinion on the Statement of Accounts.

The Authority has 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 was completed within the planned timescales.

The Authority has implemented the recommendations in the ISA 260 Report 2011/12 for the Fund issued by the previous auditor.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the accounting practices and financial reporting relating to the Fund. We also assessed the Authority's process for preparing the Fund's financial statements and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
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 3rd June 2013.
Quality of supporting working papers	The quality of working papers provided met the standards required.
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.

Element	Commentary
Response to audit queries	Officers resolved audit queries in a reasonable time.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendation made in last year's ISA 260 report.

The previous auditor recommended better record keeping by the pensions administration section over the annual data check including recording the individuals completing each test, the actions taken to correct errors, and the retention of all reports generated. We found that the Authority has fully implemented this recommendation.

Controls over the Fund's key financial systems are sound.

During April 2013 we completed our control evaluation work. We did not issue an interim report as there were no significant issues arising from this work. For completeness we reflect on key findings from this work.

Organisational and IT control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We therefore obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented.

The Authority also relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Most of the controls we look at do not just relate to the Fund but the Authority as a whole. We found that your organisational and IT control environment is effective overall.

Controls over key financial systems

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within the financial systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Based on the work of internal audit and our own work on controls over the year end process, the controls over the financial systems are sound.

Membership numbers

We noted that following the annual data cleansing exercise, significant changes were needed to the membership numbers disclosed in Note 1 to the accounts. For example 'active' members were down by 860 in 2011/12. The changes needed in the 2012/13 figures were minimal and the note has been amended.

The changes reflect timing issues but it in future it would be helpful if the membership note is compiled after the completion of the annual data cleansing exercise so that greater consistency and accuracy is reflected in the disclosure note.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

We will follow up this recommendations next year.

Priority rating for recommendations		
<p>1 Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	3	Compile the membership disclosure note for the accounts after the completion of the annual data cleansing exercise to improve the consistency and accuracy of the figures.	



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