Lincolnshire Pension Fund

Report to Audit Committee, Pensions Board and Pensions Committee

Indicative Audit Plan & Strategy for the year ending 31 March 2024

March 2024

Appendix B

Introduction

To: Audit Committee, Pensions Board and Pension Committee of Lincolnshire Pension Fund

We are pleased to have the opportunity to meet with you to discuss our audit of the financial statements of Lincolnshire Pension Fund for the year ending 31 March 2024.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice. The NAO is consulting on a new Code of Audit Practice for 2023/24, therefore this indicative plan will remain draft until the finalisation of that Code.

This report outlines our initial risk assessment and planned audit approach. Our planning activities, including review of the outgoing auditor's audit file are still ongoing and we will communicate a final audit plan once these areas are complete.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

The engagement team

Rashpal Khangura is the engagement director on the audit. He has over 20 years experience in public sector audit.

Rashpal Khangura shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include engagement manager Mehul Aggarwal and in-charge M. Muhammad with 8 years and 4 years of experience respectively.

Yours sincerely,

R S Khangura

Rashpal Khangura

Director - KPMG LLP

21 March 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner. We aim to complete all audit work no later than 2 days before audit signing. As you are aware, we will not issue our audit opinion until we have completed all relevant procedures, including audit documentation.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of Lincolnshire Pension Fund and the report is provided on the basis that it should not be distributed to other parties; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Lincolnshire Pension Fund - Indicative Risk Assessment

The risk assessment outlined is based on our initial discussions with Fund officers and our preliminary audit procedures.

Our planning activities are still ongoing and we will communicate our audit approach in full as part of our Audit Strategy Memorandum once our risk assessment activities have reached an appropriate stage.

We have determined a single figure for materiality which we will apply to both the Net Asset Statement and Fund Account. This figures disclosed here in respect of materiality are based on the audited financial statements for the FY 2022/23 available on the Authority website. We will reassess materiality on receipt of the draft 2023/24 financial statements.

Materiality

Materiality for the financial statements as a whole	**£30.6m** 1% of total assets
Procedure designed to detect individual errors at this level	**£19.8m**
Misstatements reported to the Audit and Governance Committee	**£1.5m**

Risks	KPMG's response
Management override of controls	• Professional standards require us to communicate the fraud risk from management override of controls as significant. • Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. • We have not identified any specific additional risks of management override relating to this audit.
Contributions	• Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. • Revenue in a pension fund equates to contributions. This revenue is recognized based on specific instructions as set out in the appropriate regulations and schedules. There are no subjective issues concerning when contributions need to be recognized. Amounts involved cannot easily be manipulated through accounting policies, issue of credit notes, timing or other policies. There is little incentive for the Fund management to manipulate the financial reporting of contributions. • Therefore, in the absence of specific fraud risk factors, the presumption that fraudulent revenue recognition is a significant risk is rebutted for pension fund audits.
Investments	• Investments are held to pay benefits of the Fund. They are held with multiple investment managers across a number of asset classes with most in the form of pooled investment vehicles. The investments are material to the financial statements and therefore there is a risk of material misstatement, particularly around their completeness, accuracy, existence and valuation. • We do not expect the risk in respect of the valuation of investments to be significant due to the availability of external prices of quoted instruments, and NAV statements and audited financial statements of pooled investment funds. We are however yet to assess individual pooled funds in order to ascertain whether there is any material estimate uncertainty in the valuations.
Cash	• The majority of the fund's transactions affect the cash balance. The balance of cash and cash equivalents are usually material to the financial statements and therefore there is a risk of material misstatement, particularly around their completeness, accuracy and existence.
Actuarial Present Value Of Promised Retirement Benefits	• The value of the liability is an estimate involving the selection of appropriate actuarial assumptions, most notably the discount rate based on scheme's duration, inflation rates and mortality rates. The selection of these assumptions is inherently subjective.
General Ledger migration	• The Council migrated its general ledger software as at the 1st of April 2023. • This migration poses a risk of incomplete or inaccurate data having been migrated over and therefore a risk of there being inaccurate ledger balances and inaccurate preparation of the year-end financial statements. • As the timing of the migration was during the financial year, there is also an increased risk relating to the control environment as different processes will have in operation before and after the migration.

Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£'000)	*2022/23 (£'000) **
Statutory audit	83	*29*
TOTAL	**83**	*29*

**fee charged by Mazars LLP - your predecessor auditor.*

As per PSAA's Scale Fees Consultation, the fees do not include new requirements of ISA315 revised (risk of material misstatement); or ISA 240 (auditor's responsibilities relating to fraud). Additional fees in relation to these areas will be subject to the fees variation process as outlined by the PSAA.

Billing arrangements

Fees will be billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

Basis of fee information

Our fees are subject to the following assumptions:

- The entity's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit and tax adjustments;
- Supporting schedules to figures in the accounts are supplied;
- The entity's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this);
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

Any variations to the above plan will be subject to the PSAA fee variation process.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.

To the Audit Committee, Pensions Board Pension Committee members

Assessment of our objectivity and independence as auditor of Lincolnshire Pension Fund

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

There are no non-audit services applicable.

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Pension Fund and its affiliates for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.0: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Statutory audit	83
Other Assurance Services	0
Total Fees	**83**

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 21 March 2024 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Council, Pensions Board and Pensions Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

Rashpal Khangura

KPMG LLP

KPMG

kpmg.com/uk

Some or all of the services described herein may not be permissible for KPMG audited entities and their affiliates or related entities.

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