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# Report to those charged with governance (ISA 260) 2013/14

Lincolnshire Pension Fund

September 2014



**The contacts at KPMG in connection with this report are:**

**Tony Crawley**

*Director*

*KPMG LLP (UK)*

Tel: 0116 256 6067

[tony.crawley@kpmg.co.uk](mailto:tony.crawley@kpmg.co.uk)

**Mike Norman**

*Manager*

*KPMG LLP (UK)*

Tel: 0115 935 3554

[michael.norman@kpmg.co.uk](mailto:michael.norman@kpmg.co.uk)

**Sayed Haris**

*Assistant Manager*

*KPMG LLP (UK)*

Tel: 0116 256 6061

[sayeed.haris@kpmg.co.uk](mailto:sayed.haris@kpmg.co.uk)

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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](http://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](mailto: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, 3<sup>rd</sup> Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.

**This document summarises the key issues identified during our audit of Lincolnshire Pension Fund's (the Fund's) financial statements for the year ended 31 March 2014.**

## 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. 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 2014.

## Financial statements

As with the main audit of Lincolnshire County Council (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 during February 2014 (interim audit) and June/July 2014 (year end audit).

Some of our responsibilities under ISA 260 relate to the Authority as administering authority as a whole and are discharged through our separate ISA 260 Report and Annual Audit Letter for the Authority. This specifically includes our work in the completion stage:

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

## 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 financial statements in more detail.

We have raised one recommendation this year. Further detail is enclosed at 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. Sections three and four of this report provide further details on each area.**

<b>Proposed audit opinion</b>	<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 2014.</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>
<b>Audit adjustments</b>	<p>We did not identify any material misstatements and there are no uncorrected misstatements that we need to report to you.</p>
<b>Accounts production and audit process</b>	<p>The Authority has maintained the high standard in the quality of the accounts and the supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p>
<b>Control environment</b>	<p>The Fund's organisational control environment is effective overall, and we have not identified any significant weaknesses in controls over key financial systems.</p>

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

#### Proposed audit opinion

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 22 September 2014.

#### 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 and there are no uncorrected misstatements that we need to report to you. The table below illustrates the impact of the corrected misstatements on the Fund. We understand managers are to provide the Audit Committee with further details on the corrections made during the audit to the draft statements.

Movements on the Pension Fund Account Fund 2013/14		
£m	Pre-audit	Post-audit
Net additions from dealing with fund members	4.4	4.4
Net returns on investments	94.5	92.0
<b>Increase in Fund</b>	<b>98.9</b>	<b>96.4</b>
Investments	1583.0	1,580.5
Net current assets/liabilities	10.9	10.9
<b>Net assets of the Fund</b>	<b>1,593.9</b>	<b>1,591.4</b>

#### 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:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; this is not part of our statutory responsibilities but may have been completed as added value work; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2014. The Pension Fund Annual Report was approved by the Pensions Committee in July 2014.

The Authority has maintained the high standard of its draft accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has sought to address the recommendation made in our 2012/13 ISA 260 Report.

#### 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
<b>Accounting practices and financial reporting</b>	The Authority has good financial reporting arrangements over the Fund's financial statements. We consider that accounting practices are appropriate.
<b>Completeness of draft accounts</b>	We received a complete set of draft accounts on 27 June 2014.
<b>Quality of supporting working papers</b>	Our <i>Accounts Audit Protocol</i> , which we issued on 23 March 2014 and discussed with Senior Pensions Accountant, set out our working paper requirements for the audit.  The quality of working papers provided was met the standards specified in our <i>Accounts Audit Protocol</i> .  We have included one recommendation at Appendix 1 regarding an improvement opportunity for next year.
<b>Critical accounting matters (key audit risks)</b>	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.
<b>Response to audit queries</b>	Officers resolved audit queries in a reasonable time.

#### Prior year recommendations

In our 2012/13 ISA 260 Report we noted that the disclosure in the draft financial statements regarding membership numbers needed to be updated after the statements were produced. We recommended the Authority look to obtain the updated information before the draft statements were produced. The Authority has sought to address this recommendation but it is dependant on its pensions administration partner for this information. It was not possible for it's partner to provide the information before the 30 June 2014 deadline for the Authority's draft statements so the Authority has continued with its existing practice.

The controls over the Fund's key financial systems are sound.

During February 2014 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 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.

We found that your organisational control environment is effective overall.

#### ISAE 3402 reports

The Fund used a total of 7 different fund managers during 2013/14. Fund managers provide assurance reports under International Standard on Assurance Engagements (ISAE) 3402 or equivalents. These reports provide assurance over the controls at a service organisation where these controls are likely to be relevant to user entities' internal control over financial reporting.

Assurance reports were available for all fund managers.

#### Work on behalf of admitted body auditors

The auditors of admitted bodies requested us to complete specific work on controls operated by the Fund over certain data provided to the Actuary for their estimation of the pensions liabilities and related disclosures for the admitted bodies' 31 March 2013 triennial valuation.

Our work did not identify any specific issues.

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

The Fund should closely monitor progress in addressing specific risks and implementing our recommendations.

Priority rating for recommendations		
<p><b>1</b> <b>Priority one:</b> 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><b>2</b> <b>Priority two:</b> 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><b>3</b> <b>Priority three:</b> 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	<b>2</b>	<p><b>Review of foreign exchange rates</b></p> <p>We identified during our audit an incorrect foreign exchange rate applied to the valuation of an investment in US Dollars (on this one occasion the Euro rate was used in error). This resulted an overstatement of £2.5m in the valuation of the investment.</p> <p><b>Recommendation</b></p> <p>Management should review all foreign exchange rates applied to the valuation of an investment for accuracy and consistency.</p>	<p>Agreed and implemented with immediate effect.</p> <p><b>Responsible Officer:</b> Jo Ray (Group Manager)  <b>Due Date:</b> Immediately</p>





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