

# Annual Audit Letter

## Lincolnshire Pension Fund

Year ended 31 March 2020





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# 1. EXECUTIVE SUMMARY

## Purpose of the Annual Audit Letter

Our Annual Audit Letter summarises the work we have undertaken as the auditor for the Lincolnshire Pension Fund (the Pension Fund) for the year ended 31 March 2020. Although this letter is addressed to the members of Lincolnshire County Council, as a body and as administering authority for the Lincolnshire Pension Fund, it is designed to be read by a wider audience including members of the public and other external stakeholders.

Our responsibilities are defined by the Local Audit and Accountability Act 2014 (the 2014 Act) and the Code of Audit Practice issued by the National Audit Office (the NAO). The detailed sections of this letter provide details on those responsibilities, the work we have done to discharge them, and the key findings arising from our work. These are summarised below.

Area of responsibility	Summary
Audit of the financial statements	<p>Our auditor's report issued on 30 April 2021 included our opinion that the financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the Pension Fund's financial position as at 31 March 2020 and of its expenditure and income for the year then ended; and</li><li>• have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20</li></ul>
Other information published alongside the audited financial statements	<p>Our auditor's report included our opinion that the other information in the Statement of Accounts is consistent with the audited financial statements.</p>
Statutory reporting	<p>Our auditor's report confirmed that we did not use our powers under section 24 of the 2014 Act to issue a report in the public interest or to make written recommendations to the Pension Fund.</p>
Consistency Report	<p>Information within the Pension Fund Annual Report is consistent with the financial statements within Lincolnshire County Council Statement of Accounts.</p>

Executive summary

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## 2. AUDIT OF THE FINANCIAL STATEMENTS

Opinion on the financial statements

Unqualified

### The scope of our audit and the results of our work

The purpose of our audit is to provide reasonable assurance to users that the financial statements are free from material error. We do this by expressing an opinion on whether the statements are prepared, in all material respects, in line with the financial reporting framework applicable to the Pension Fund and whether they give a true and fair view of the Pension Fund's financial position as at 31 March 2020 and of its financial performance for the year then ended.

Our audit was conducted in accordance with the requirements of the Code of Audit Practice issued by the NAO, and International Standards on Auditing (ISAs). These require us to consider whether:

- the accounting policies are appropriate to the Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management in the preparation of the financial statements are reasonable; and
- the overall presentation of the financial statements provides a true and fair view.

Our auditor's report, stated that in our view, the financial statements give a true and fair view of the Pension Fund's financial position as at 31 March 2020 and of its financial performance for the year then ended. We drew attention to Note 5 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Pension Fund's property investment assets as at 31 March 2020. As disclosed at Note 5 these valuations have been reported by the valuers on the basis of 'material valuation uncertainty' in line with guidance from the Royal Institute of Chartered Surveyors. Our opinion is not modified in respect of this matter.

### Our approach to materiality

We apply the concept of materiality when planning and performing our audit, and when evaluating the effect of misstatements identified as part of our work. We consider the concept of materiality at numerous stages throughout the audit process, in particular when determining the nature, timing and extent of our audit procedures, and when evaluating the effect of uncorrected misstatements. An item is considered material if its misstatement or omission could reasonably be expected to influence the economic decisions of users of the financial statements.

Judgements about materiality are made in the light of surrounding circumstances and are affected by both qualitative and quantitative factors. As a result we have set materiality for the financial statements as a whole (financial statement materiality) and a lower level of materiality for specific items of account (specific materiality) due to the nature of these items or because they attract public interest. We also set a threshold for reporting identified misstatements to the Audit Committee. We call this our trivial threshold.

The table on the next page provides details of the materiality levels applied in the audit of the financial statements for the year ended 31 March 2020:



## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our approach to materiality (continued)

Financial statement materiality	Our financial statement materiality is based on 1% of net assets available to pay benefits	£22.2 million
Trivial threshold	Our trivial threshold is based on 3% of financial statement materiality.	£0.7 million
Specific materiality	We set a specific materiality for the fund account using a benchmark of 10% of contributions receivable.	£8.3 million

### Our response to significant risks

As part of our continuous planning procedures we considered whether there were risks of material misstatement in the Pension Fund's financial statements that required special audit consideration. We reported significant risks identified at the planning stage to the Audit Committee within our Audit Strategy Memorandum and provided details of how we responded to those risks in our Audit Completion Report. The table below and on the next page outlines the identified significant risks, the work we carried out on those risks and our conclusions.

Identified significant risk	Our response	Our findings and conclusions
<b>Management override of controls</b> In all entities, management at various levels within an organisation are 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. Because of the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.	We addressed this risk by performing audit work in the following areas: <ul style="list-style-type: none"><li>• accounting estimates impacting on amounts included in the financial statements;</li><li>• consideration of identified significant transactions outside the normal course of business; and</li><li>• journals recorded in the general ledger and other adjustments made in preparation of the financial statements.</li></ul>	Our audit procedures did not identify any material errors or uncertainties in the financial statements, or other matters in relation to management override of controls.

## 2. AUDIT OF THE FINANCIAL STATEMENTS

### Our response to significant risks (continued)

Identified significant risk	Our response	Our findings and conclusions
<p><b>Valuation of level 3 unquoted investments for which a market price is not readily available</b></p> <p>As at 31 December 2019 the fair value of investments which were not quoted on an active market was £346m, which accounted for 13.6 percent of net investment assets. As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances due to the assumptions underlying the valuation. We therefore considered that there was an increased risk of material misstatement</p>	<p>We addressed this risk by:</p> <ul style="list-style-type: none"> <li>• agreeing holdings from fund manager reports to the custodian’s report;</li> <li>• agreeing the valuation to supporting documentation including investment manager valuation statements and cashflows for any adjustments made to the investment manager valuation;</li> <li>• agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available; and</li> <li>• reviewing independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Fund’s financial statements.</li> </ul>	<p>No material misstatements were identified in the course of the audit work completed.</p> <p>The Financial Statements include at Note 5 a disclosure referring to the ‘material valuation uncertainty’ reported by valuers in relation to the Pooled Property Unit Trust investment assets caused by COVID-19. Our audit report included an ‘emphasis of matter’ paragraph referring to this disclosure. Our audit opinion was not qualified in respect of this matter.</p>

### Internal control recommendations

As part of our audit we considered the internal controls in place that are relevant to the preparation of the financial statements. We did this to design audit procedures that allow us to express our opinion on the financial statements, but this did not extend to us expressing an opinion on the effectiveness of internal controls. Our work did not identify any internal control issues to bring to the attention of the Audit Committee.



### 3. OTHER REPORTING RESPONSIBILITIES

Exercise of statutory reporting powers	No matters to report
Other information published alongside the audited financial statements	Consistent
Consistency Report on information within the Pension Fund Annual Report	Consistent

The NAO's Code of Audit Practice and the 2014 Act place wider reporting responsibilities on us, as the Pension Fund's external auditor. We set out below, the context of these reporting responsibilities and our findings for each.

#### Matters on which we report by exception

The 2014 Act provides us with specific powers where matters come to our attention that, in our judgement, require reporting action to be taken. We have the power to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these statutory reporting powers.

#### Other information published alongside the financial statements

The Code of Audit Practice requires us to consider whether information published alongside the financial statements is consistent with those statements and our knowledge and understanding of the Pension Fund. In our opinion, the other information in the Statement of Accounts is consistent with the audited financial statements.



## 4. OUR FEES

### Fees for work as the Pension Fund's auditor

We reported our proposed fees for the delivery of our work in the Audit Strategy Memorandum, presented to the Audit Committee in June 2020. This detailed a proposed additional charge of £3,000 (plus VAT) above the scale charges set by PSAA to undertake additional work this year in relation to the triennial valuation as at 31 March 2019 as part of our audit of the 2019/20 financial statements. The two main elements of the testing involved were:

- testing the membership data held in the pension administration system as at 31 March 2019; and
- undertaking procedures to provide assurance that the membership data submitted to the actuary as at 31 March 2019 agrees to the data held in the pension administration system.

This work was in addition to the annual audit procedures that we undertake. Having completed our work for the 2019/20 financial year, we can confirm that our proposed final fees are as follows. These fees are subject to agreement with management and approval by PSAA:

Area of work	2019/20 proposed fee	2019/20 final fee*
Scale fee for Delivery of audit work under the NAO Code of Audit Practice	£18,750	£18,750
Additional core work – triennial valuation (2019/20 only)	£3,000	£3,000
Additional core work - FRA requirements (recurring)	-	£6,000**
Total	£21,750	£27,750

\* Please note the final fee does not include the fees chargeable by the Pension Fund to nine participating employers for assurances given to their auditors (see below).

\*\* The additional audit cost of £6,000 in 2019/20 relates to enhanced procedures on unquoted investments in response to increased regulatory expectations. These procedures will be repeated for our 2020/21 audit and we may need to respond to further recommendations from our regulator.

### Fees for other work

As communicated in our audit Strategy Memorandum we are required to respond to requests from other auditors, with the fees for such work to be charged initially to the Pension Fund. In line with this requirement we have reported the results of the performance of our work programme at Lincolnshire Pension Fund to the auditors of nine participating employers. The PSAA has clarified that fees for all such work, regardless of whether the employer is within the PSAA regime, will be an audit fee variation, which means that the fees for the IAS19 assurance work will be billed to the Pension Fund; the expectation is that the Fund will seek to recover the costs of this work from relevant employers.

The fee for this IAS 19 assurance work in 2019/20 is £1,320 per employer. We are satisfied this IAS 19 assurance work does not impact our independence or objectivity in relation to the audit of the Pension Fund.

At the present time we have not been separately engaged by the Pension Fund to carry out any other additional work outside of the fees in relation to our appointment by PSAA.



## 5. FORWARD LOOK

### Changes to the Code of Audit Practice

The Code of Audit Practice (the Audit Code), issued by the Comptroller and Auditor General, prescribes the way we carry out our responsibilities as your auditors. On 1<sup>st</sup> April 2020 a new Code came in to force and applies to our work from 2020/21 onwards.

The new Audit Code continues to apply the requirements of International Standards on Auditing (ISAs) to our audit of the financial statements. While there are changes to the ISAs that are effective from 2020/21 the Audit Code has not introduced any changes to the scope of our audit of the financial statements. We will continue to give our opinion on the financial statements in our independent auditor's report.

### Reporting the results of the auditor's work

The new Audit Code has introduced changes to the way we report the outcomes of our work to you. We currently issue you with an Annual Audit Letter which provides a summary of our work across all aspects of our audit. From 2020/21 the Annual Audit Letter will be replaced by the Auditor's Annual Report. This will continue to provide a summary of our work over the year of audit. The guidance supporting the new Audit Code is being developed by the National Audit Office and we will provide you with any further updates to our approach arising from this guidance when it is released.

### Redmond Review

In September 2020, Sir Tony Redmond published the findings of his independent review into the oversight of local audit and the transparency of local authority financial reporting. The report made several recommendations that, if implemented, could affect both the financial statements that local authorities are required to prepare and the work that we as auditors are required to do.

The recommendations and findings have been considered by the Ministry of Housing, Communities and Local Government and we look forward to working with all stakeholders to implement the agreed changes to ensure the development and sustainability of local audit.



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