

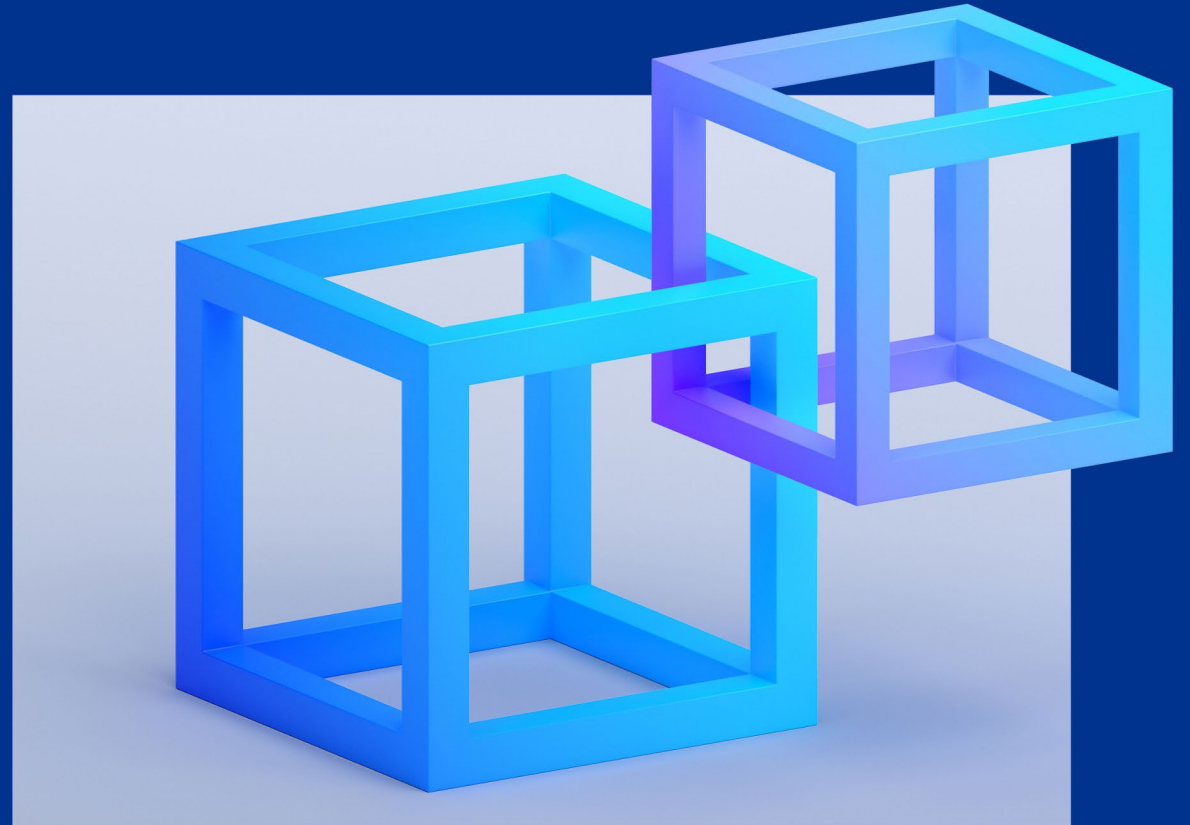


# Lincolnshire Pension Fund

Report to the Pension Committee and Pension Board

Year end report for the year ended 31 March 2024

20 January 2025



# Introduction

## To the Pension Committee and Pension Board of Lincolnshire Pension Fund

We are pleased to have the opportunity to meet with you on 17 October 2024 to discuss the draft results of our audit of the financial statements of Lincolnshire Pension Fund, as at and for the year ended 31 March 2024.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions.

This report should be read in conjunction with our audit plan and strategy report, presented on 11 July 2024.

We will be pleased to further elaborate on the matters covered in this report when we meet.

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## Status of our Audit

Subject to the Administering Authority's approval, we expect to be in a position to sign our audit opinion on the financial statements once the audit of the council is complete, provided that the outstanding matters noted on 4 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy.

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

*RS Khangura*

**Rashpal Khangura**

**Director**

**KPMG LLP**

20 January 2025

## 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 management; and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

# Important notice



**This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.**

Circulation of this report is restricted.

The content of this report is based solely on the procedures necessary for our audit.

## Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Lincolnshire Pension Fund (the 'Fund'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Administering Authority's Audit Committee, a sub group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication on 11 July 2024.

## Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Fund's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

## Status of our audit

Our audit is now complete.

## Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit Committee the Administering Authority and Pensions Committee of the Pension Fund; 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.

# Our audit findings

## Significant audit risks Page 6-7

Significant audit risks	Our findings
Management override of controls	We found no reportable misstatements or indicators of fraud in our testing. A control deficiency is noted with regards to segregation of duties to post and review – please see page 32.

## Key accounting estimates Page 10-12

Valuation of level 1 & 2 pooled investment vehicles and segregated investments	We do not note any deviations in valuation that were outside our acceptable range. We found the valuation of these investments appropriate.
Valuation of level 3 pooled investment vehicles	We found valuation of these investment based on unaudited NAV as appropriate.

## Expenditure recognition

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered.

Expenditure in a pension scheme equates to payments to members and management expenses. There are no subjective issues concerning when expenses need to be recognised. Amounts involved cannot easily be manipulated through accounting policies, timing or other policies. There is little incentive for the Fund to manipulate the financial reporting of expenses. Therefore, in the absence of specific fraud risk factors, there is no risk of fraudulent financial reporting arising from the manipulation of expenditure recognition for the Fund.

## Number of Control deficiencies Page [32]

Severity	Priority
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Other control deficiencies	
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## Outstanding matters

Our audit is now complete.



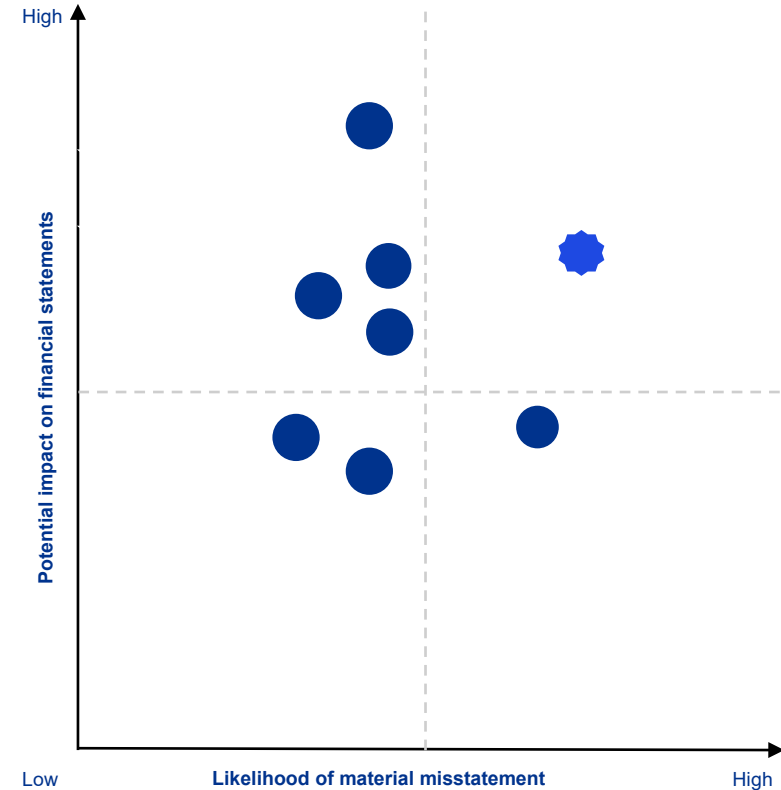
# Significant risks and other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the Lincolnshire Pension Fund, the industry and the wider economic environment in which the Pension Fund operates.

We also use our regular meetings with senior management to update our understanding and take input from component audit teams and internal audit reports.

In the Audit Plan we stated, that due to the levels of economic uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. We further stated that we would amend our audit approach accordingly and communicate this to the Audit Committee and Pension Committee. We note we have not identified any such matters.

- Valuation of Level 1, 2 and Level 3 investments is misstated
- Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule
- 5 ● Cash balances are not completely identified, accurately recorded or do not exist.
- Benefit payments that have fallen due are not completely identified, do not exist or are not accurately recorded
- The actuarial position of the scheme is not appropriately presented in the financial statements
- The data migrated from the old to new general ledger system is incomplete or inaccurate



## KEY

- ★ Presumed significant risk
- Other audit risks

# Audit risks and our audit approach



## 1 Management override of controls<sup>(a)</sup>



### Significant audit risk

- 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.
- As part of our planning risk assessment procedures we identified that the Pension Fund does not have enforced segregation of duty controls over the posting of journals, we will therefore not seek to take a controls based approach when designing procedures to provide assurance over this risk



### Planned response

- As part of our audit procedures we gained an understanding of the financial reporting process.
- Our audit methodology incorporates the risk of management override of controls as a default significant risk.
- In line with our methodology, we evaluated the design and implementation of controls over journal entries and post-closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the normal course of business, or are otherwise unusual.
- Evaluated the selection and application of accounting policies.
- Analysed all journals through the year using data and analytics and focus our testing on those with a higher risk.
- With regards to the financial reporting and journals process, we performed the following over journal entries and other adjustments:
  - Evaluated the completeness of the population of journal entries.
  - We determined high risk criteria and selected journals based on this criteria for testing.

Note: (a) Significant risk that professional standards require us to assess in all cases.

# Audit risks and our audit approach (cont.)



## 1 Management override of controls<sup>(a)</sup>



### Significant audit risk

- 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.
- As part of our planning risk assessment procedures we identified that the Pension Fund does not have enforced segregation of duty controls over the posting of journals, we will therefore not seek to take a controls based approach when designing procedures to provide assurance over this risk



### Our findings

- We evaluated completeness of journal entries and did not note any issues.
- We evaluated the selection and application of accounting policies and did not note any issues.
- We found no reportable misstatements or indicators of fraud as a result of our high-risk journal testing. However we have raised a control deficiency in respect of segregation of duties when posting manual journals directly to the ledger. We identified that management have implemented a compensating control to review any manual journals which impact fund account movements. For the purposes of our audit, we are unable to rely on this control as it is informal in nature.
- Our view of key estimates such as the valuation of L1, L2 and L3 investments is included on the relevant pages of this document.
- We enquired with PF finance teams during our site visits, to identify any suspected or alleged incidents of management override, and identified no matters that were of such significance to require reporting to the Audit Committee.

Note: (a) Significant risk that professional standards require us to assess in all cases.



# Audit risks and our audit approach (cont.)



2

## Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded



### Other audit risk

- Level 1, 2 and Level 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Lincolnshire Pension Fund. They are held with a number of investment managers across multiple asset classes. The investments are material to the financial statements (99.1% of the Statement of Net Assets) and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to completeness, existence and accuracy as there has been a number of investment transitions in the year between investment managers, due to rebalancing of the portfolio based on the Pension Committee's decision to align the portfolio with the Investment Strategy Statement.



### Planned response

- As part of our audit procedures we gained an understanding of the processes over the completeness, existence and accuracy of Level 1, 2 and 3 investments. This includes gaining an understanding of the control environment at all the investment managers and Northern Trust (custodian) by reviewing their internal controls reports to identify any control deficiencies that would impact our audit approach (where available).
- We obtained direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end.
- We vouched purchases and sales to investment manager and/or custodian reports.
- We recalculated change in market value and compare this to the overall investment return stated in the Pension Committee's report for consistency with the amounts reported in the financial statements. We will investigate any material deviations.



# Audit risks and our audit approach (cont.)



2

## Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded



### Other audit risk

- Level 1, 2 and Level 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Lincolnshire Pension Fund. They are held with a number of investment managers across multiple asset classes. The investments are material to the financial statements (99.1% of the Statement of Net Assets) and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to completeness, existence and accuracy as there has been a number of investment transitions in the year between investment managers, due to rebalancing of the portfolio based on the Pension Committee's decision to align the portfolio with the Investment Strategy Statement.



### Our findings

- Where available, we obtained the internal controls report of investment managers and Northern Trust and reviewed these reports to identify any control deficiencies that would impact our audit approach. No issues were identified that impact our planned audit response.
- We obtained direct confirmation from the investment managers and the custodian to vouch the holdings and valuation of assets at year-end. We note that the holdings and valuation as recorded by management are appropriate.
- We vouched the purchases and sales during the year to investment manager and custodian reports, and do not note any issues.
- We recalculated the change in market value and compared the overall investment return as stated in Pension's Committee's report. No issues were noted.

# Audit risks and our audit approach (cont.)



3

## Valuation of Level 1, 2 and other Level 3 investments is misstated



### Other audit risk

- The fair value of level 1, 2 and 3 investments is not measured appropriately.
- Investments are held to pay benefits of the Lincolnshire Pension Fund. They are held with a number of investment managers across multiple asset classes. The investments are material to the financial statements (99.1% of the Statement of Net Assets) and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to fair values of level 1 and 2 segregated and pooled investments which amounted to £2.597bn as at 31 March 2024 (PY: £2.389bn), due to the estimation uncertainty resulting from the pricing of these investments.
- There is a risk of material misstatement relating to fair values of level 3 pooled investments which amounted to £699.32mn as at 31 March 2024 (PY: £572.24mn), due to the estimation uncertainty resulting from unobservable inputs to these investments.



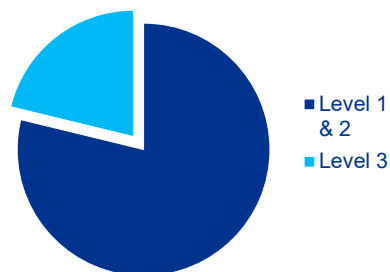
### Planned response

Our approach in relation to valuation for different types of investments is as follows:

- **Segregated financial instruments** Our in-house investment valuation team, iRADAR, was engaged to independently revalue segregated securities and over the counter (OTC) derivative prices and identify stale price issues of directly held financial instruments within the investment portfolio as well as any exposures to hard to value assets.
- **Level 1 & 2 Pooled Investment Vehicles:** We recalculated the value of the Level 1 and 2 pooled investments by using our internal valuation specialist.
- **Level 3 pooled investment vehicles:** For each Level 3 pooled investment vehicle investment manager, as part of our audit procedures we assess the work of the investment manager for use as audit evidence;
- We obtained the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouch the valuation to this.
- We further assessed the reliability of the NAV statements produced by fund managers on a sample basis by :
  - Obtaining and inspecting the latest audited financial statements for the underlying funds where available;
  - Inspecting the audit report to confirm that it is unqualified and that the audit has been carried out by a reputable audit firm; and
  - Comparing the unaudited pricing information at the year end to the audited financial statements valuation. Where the audited financial statements are not as at the Fund year end date, we will agree them to unaudited pricing information at that date and reconcile significant movements to the Fund year end date agreeing movements to transaction statements.

# Audit risks and our audit approach (cont.)

## Level 1 & 2 Investments



Type of security	Market value 2024 (£m)	Percentage of portfolio 2024%	Market value 2023 (£m)	Percentage of portfolio 2023%
<b>Pooled Investment Vehicles, Segregated investment, Derivatives &amp; investment cash</b>	2,597.06	78.8%	2,389.36	80.7%
<b>Total</b>	2,597.06	78.8%	2,389.36	80.7%



### Our findings

#### Type of security

#### Our findings

#### **Pooled investment vehicles, Segregated investment, Derivatives & investment cash**

Our in-house investment valuation team, iRadar, has tested the fair values of segregated financial instruments, and level 1 & 2 pooled investment vehicles & derivatives, and do not note any deviation outside our acceptable range. We found the valuation of these investments appropriate. For testing of investment cash refer page 15 of this document.

We have not noted any changes in method and underlying assumptions used to prepare accounting estimates related to valuation of level 1 and level 2 investments.

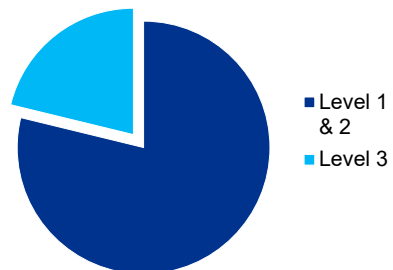
We have not noted any possible bias relating to judgements and decisions in making accounting estimates related to valuation of level 1 and level 2 investments.



Key:  
■ Current year

# Audit risks and our audit approach (cont.)

## Level 3 Investments



Type of security	Market value 2024 (£m)	Percentage of portfolio 2024%	Market value 2023 (£m)	Percentage of portfolio 2023%
<b>Pooled Investment Vehicles</b>	699.32	21.2%	572.24	19.3%
<b>Total</b>	699.32	21.2%	572.24	19.3%

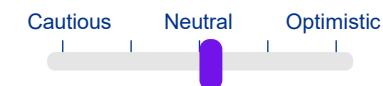


### Our findings

#### Type of security Our findings

##### Pooled investment vehicles

- For level 3 pooled investment vehicles, we have vouched the valuations considered by management to the unaudited NAV statement. We found valuation of these investment based on unaudited NAV as appropriate.
- We further assessed the reliability of the unaudited NAV statements provided by the investment manager by obtaining latest audited financial statements of fund and comparing with the unaudited NAV statement that aligns with the latest audited financial statements of fund. No issues were noted.
- We have not noted any changes in method and underlying assumptions used to prepare accounting estimates related to valuation of level 3 investments.
- We have not noted any possible bias relating to judgements and decisions in making accounting estimates related to valuation of level 3 investments.



Key:  
 Current year

# Audit risks and our audit approach (cont.)



## 4 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule



### Other audit risk

- Contributions into the Pension Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Rates and Adjustments Schedule
- 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 income. This revenue is recognized based on specific instructions as set out in the appropriate schedule(s). 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 Pension Fund's 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.



### Planned response

As part of our audit procedures we gained an understanding of the processes over the contribution payment arrangements between the admitted and scheduled bodies and administering authority, and also the effectiveness of the Pension Fund's contribution monitoring arrangements.

As part of risk assessment procedures, we carried out re-performance checks for a selection of members on normal employee and employer contributions by reference to their pensionable salary and rates.

Our audit procedures over contributions included:

- Inspecting that deficit funding contributions are received into the Pension Fund in accordance with the rates and adjustments schedule;
- For a risk based sample of admitted bodies we inspected whether contributions are received into the Pension Fund on a timely basis under the requirements through vouching contributions received to bank statements;
- Developed an expectation of the normal employer and employee contributions receivable in the year reflecting changes in active members in the year, increases in pensionable salary and any changes in the contributions rates in the year and compare these to actual employer and employee contributions received in the year; and
- Vouch that there are 12 months receipt in the year and assessing the trend of such receipts.

# Audit risks and our audit approach (cont.)



## 4 Contributions into the Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Fund's Rates and Adjustments Schedule



### Other audit risk

- Contributions into the Pension Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Rates and Adjustments Schedule
- 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 income. This revenue is recognized based on specific instructions as set out in the appropriate schedule(s). 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 Pension Fund's 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.



### Our findings

- We assessed the trend of contributions over 12 months and do not note unusual movements on monthly basis.
- We vouched the deficit funding deficit funding contributions and found that these are received into the Pension Fund in accordance with the rates and adjustments schedule.
- For a sample of contributions received from admitted bodies we vouched if these received on a timely basis and do not note any issues.
- For a sample of employers we vouched the contributions to ensure that there are 12 months receipt in the year.
- We developed an expectation of the normal employer and employee contributions receivable in the year reflecting changes in active members in the year, increases in pensionable salary and any changes in the contributions rates in the year and compared these to actual employer and employee contributions received in the year. We noted that the difference between our expectation and actual contributions is below our acceptable threshold and therefore are satisfied this provides appropriate audit evidence.

# Audit risks and our audit approach (cont.)



## 5 Cash balances are not completely identified, accurately recorded or do not exist



### Other audit risk

- Cash balances are not completely identified, accurately recorded or do not exist.
- The balance of cash and cash equivalents is usually material.
- The majority of the Pension Fund's transactions affect the cash balance it is therefore considered to be material by nature.



### Planned response

#### Our audit will include:

- Obtain the bank confirmation directly from the bank.
- Inspect and vouch the bank confirmation received directly from the bank to the audited Pension Fund balances within the bank reconciliation provided by the administrator.
- Obtain the bank reconciliation (where there are reconciling items) and vouch any significant reconciling items to supporting documentation.



# Audit risks and our audit approach (cont.)



## 5 Cash balances are not completely identified, accurately recorded or do not exist



### Other audit risk

- Cash balances are not completely identified, accurately recorded or do not exist.
- The balance of cash and cash equivalents is usually material.
- The majority of the Pension Fund's transactions affect the cash balance it is therefore considered to be material by nature.



### Our findings

- We obtained the direct confirmation for all the cash balances held by the fund.
- We inspected and vouched the direct confirmation received to the audited Pension Fund balances within the bank reconciliation provided by the Pension Fund's management. No issues were noted.
- We obtained the bank reconciliation and vouched material reconciling items to supporting documentation. No issues were noted.

# Audit risks and our audit approach (cont.)



## 6 Benefit payments that have fallen due are not completely identified, do not exist or are not accurately recorded



### Other audit risk

- Benefit payments that have fallen due are not completely identified, do not exist or are not accurately recorded.
- Pension payroll is usually material in size to the financial statements.
- Benefit payments are made up of a large number of individual member transactions.



### Planned response

#### Planned response

As part of our audit procedures we gained an understanding of the processes over the calculation and authorisation of benefit payments and transfers out and the processing of the pensioner payroll.

#### Our audit procedures over pension payments included:

- Developed an expectation of the pensions paid in the year reflecting changes in pensioner members in the year, the annual pension increases in the year and compare these to actual pensions paid in the year;
- Inspect that there are 12 months' of pension payments in the year and assessing the trend of such payments;
- Vouch pensioners per the membership statistics to the number of pensioners paid per the final month's pensioner payroll and the amount paid per the nominal ledger to the final month's pensioner payroll.

#### As other benefit payments and payments to and on account of leavers are not material to financial statements our audit procedures included:

- Verifying the consistency of membership movements per the administrator database to payments made per the nominal ledger;
- Evaluation of after date payments to ensure there are no material unrecorded liabilities and to ensure cut off is correct.

# Audit risks and our audit approach (cont.)



## Benefit payments that have fallen due are not completely identified, do not exist or are not accurately recorded



### Other audit risk

- Benefit payments that have fallen due are not completely identified, do not exist or are not accurately recorded.
- Pension payroll is usually material in size to the financial statements.
- Benefit payments are made up of a large number of individual member transactions.



### Our findings

- We developed an expectation of the pensions paid in the year reflecting changes in pensioner members in the year, the annual pension increases in the year and compared these to actual pensions paid in the year. We noted that the difference between our expectation and actual pensions paid is below our acceptable threshold and therefore are satisfied this provides appropriate audit evidence.
- We inspected that there are 12 months' of pension payments in the year, We further assessed the trend of such payments and do not note unusual movements on monthly basis.
- We vouched pensioners per the membership statistics to the number of pensioners paid per the final month's pensioner payroll and the amount paid per the nominal ledger to the final month's pensioner payroll. The differences noted were supported by evidence provided by the management.
- We verified the consistency of member transfer-out per the administrator database to payments made per the nominal ledger.
- We evaluated payments after 31 March 2024 to ensure there are no material unrecorded liabilities and to ensure cut off is appropriate.

# Audit risks and our audit approach (cont.)



## 7 The actuarial position of the scheme is not appropriately presented in the financial statements



### Other audit risk

- The actuarial position of the scheme is not appropriately presented in the financial statements
- The actuarial position is not recognised on the Statement of Net Assets but is disclosed in the Notes
- The value of the liability is an estimate involving the selection of appropriate actuarial assumptions, most notably the discount rate applied to the Fund's liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective.



### Planned response

We performed the following procedures:

- Understand the processes in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuary to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the Fund's actuary to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Test the data provided used within the calculation of the Fund valuation; and
- Evaluate, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data.

# Audit risks and our audit approach (cont.)



## 7 The actuarial position of the Funds is not appropriately presented in the financial statements



### Other audit risk

- The actuarial position of the scheme is not appropriately presented in the financial statements
- The actuarial position is not recognised on the Statement of Net Assets but is disclosed in the Notes
- The value of the liability is an estimate involving the selection of appropriate actuarial assumptions, most notably the discount rate applied to the Fund's liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective.



### Our findings

- We evaluated the competency, objectivity of the actuary to confirm their qualifications and the basis for their calculations and found these to be appropriate.
- We performed inquiries of the Fund's actuary to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets.
- We tested the data provided used within the calculation of the Fund valuation and noted no issues. Please see earlier pages for results after testing contributions and benefit payments.
- We evaluated, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data. We note that overall as well as individual assumptions used for valuation are balanced and within our reasonable range. The methodology for valuation as well as setting individual assumptions is noted to be compliant with IAS 26.

# Audit risks and our audit approach (cont.)



## 8 The data migrated from the old to new general ledger system is incomplete or inaccurate



### Other audit risk

- The Lincolnshire County Council migrated its general ledger software as at the 1<sup>st</sup> 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.



### Planned response

We performed the following procedures:

- Understand and evaluate the design and implementation of controls in place around the migration to ensure the complete and accurate transfer of data;
- Consider the impact the migration will have on our understanding of the business processes and perform additional risk assessment procedures to ensure that we have appropriately and sufficiently documented its impact;
- Understand the changes to the IT environment and involve KPMG IT audit specialists;
- Test the migration of data to ensure completeness and accuracy of the transferred data; and
- Verify the accuracy of the opening trial balance of the new general ledger system and reconcile it to the closing trial balance of the old general ledger system to confirm that the ledger balances have accuracy transferred across.

# Audit risks and our audit approach (cont.)



8

## The data migrated from the old to new general ledger system is incomplete or inaccurate



### Other audit risk

- The Lincolnshire County Council migrated its general ledger software as at the 1<sup>st</sup> 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.



### Our findings

- We made inquiries to understand the project methodology to establish whether a formal, documented project management methodology was used for the upgrade & development of the application systems in the period and confirmed that this was formal.
- We obtained evidence to confirm that migration testing was performed prior to the migration of the data by the project team to ensure the readiness of the go-live milestone. This included Unit testing, Integration System testing and User Acceptance testing. We noted that a specific, additional test phase, Payroll parallel running was also performed
- We inspected the data migration strategy document to understand the approach and extent of the data to be migrated, the reconciliation of that data, the timings of the migrations. This also detailed the responsibilities for Lincolnshire County Council & Hopple in regards to data reconciliation. We confirmed that the data had been appropriately reconciled between closing and opening ledgers.
- Our testing to confirm that the closing trial balance position migrated completely and accurately to the opening trial balance position is complete. We do not note any material differences in the closing balance as per old ledger system and opening balance as per new ledger system.



# Other matters



## Annual report

The Pension Fund annual report has been issued with the financial statements. We have not found any material inconsistency between this information included in the annual report and the financial statements, or with our knowledge obtained in the audit.

## Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

We have not completed any non-audit work at the Fund during the year.

## Audit Fees

Our PSAA prescribed 2023/24 audit scale fee for the audit was **£82,725** plus VAT (N/A in 2022/23).

The scale fees agreed with the PSAA do not take into account the impact of ISA315 (Revised). We have agreed a fee variation of **£6,420** plus VAT with you in respect of ISA351R. We are awaiting PSAA approval before invoicing this amount.

We also note we will also need to raise a further fee variation for the work associated with the data migration risk, we will confirm this level as we complete the Council's audit as the two are connected.

## Quality and timeliness of information prepared by management/those charged with governance

In our view, the quality of information:

- Supported our ability to understand key decisions better and obtain sufficient audit evidence
- Enabled informed challenge of management decisions
- Supported audit quality and better disclosure.

The impact on our audit opinion of the above issues was that we expect to report an unmodified opinion.

# Appendices

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# Required communications

Type	Response
	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
	<p><input checked="" type="checkbox"/> There were no significant matters that arose during the audit in connection with the entity's related parties.</p> <p>There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.</p>
	<p><input checked="" type="checkbox"/> We communicated to management all deficiencies in internal control over financial reporting during the audit and these are included in this report as well – please see page 32.</p> <p>No actual or suspected fraud involving Fund management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.</p>
<b>Make a referral to the regulator</b>	<input checked="" type="checkbox"/> We have not identified any such matters.
<b>Issue a report in the public interest</b>	<input checked="" type="checkbox"/> We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

	<input checked="" type="checkbox"/>
	<input checked="" type="checkbox"/>
	<input checked="" type="checkbox"/> The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
	<input checked="" type="checkbox"/> No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
	<input checked="" type="checkbox"/> No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.
	<input checked="" type="checkbox"/> Over the course of our audit, we have evaluated the appropriateness of the Fund's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
	<input checked="" type="checkbox"/>
<b>Certify the audit as complete</b>	<input checked="" type="checkbox"/> Our audit for the year ended 31 March 2024 is now complete



# 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 Partner and audit staff is not impaired.

To the Audit and Risk 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.

The conclusion of the audit engagement director as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a director not otherwise involved in your affairs.

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

No non-audit services have been provided to the Fund during the year ended 31 March 2024 and we have not committed to providing any such services.

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.

We note that the Fund is one of 11 partner funds in the Border to Coast Pension Partnership (BCPP). BCPP is an audit client of KPMG LLP and KPMG LLP also provides AAF 01/20 assurance reporting for BCPP. These do not constitute non-audit services in respect of the Fund but we include them here in the interest of completeness.

Description of scope of services	Threats and safeguards	Basis of fee	Value of Services Delivered in the year ended 31 March 2024 £	Value of Services Committed but not yet delivered £
AAF 01/20 reporting for Border to Coast Pension Partnership	BCPP is not considered an affiliate of the Fund and therefore provision of this service is not a threat to our independence	Fixed	£136,300	Entering year 3 of an 8 year call-off contract with future fees approximately £1.5m total (excluding inflation) for the remaining years.

# Confirmation of Independence

## 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.

[REDACTED]	
Statutory audit	83
Other Assurance Services	0
[REDACTED]	

## Application of the FRC Ethical Standard 2019

The predecessor auditors have 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 15 March 2020 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 of the Council, Pension Board and Pension 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



**KPMG LLP**



# Uncorrected audit misstatements



In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Pension Committee, details of all adjustments greater than £ 1.5m are to be communicated.

We have nothing to report in this regard.

# Corrected audit misstatements



Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee and Pension Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. We have noted below as corrected audit misstatement.

**1. Disclosure adjustment: Fair value hierarchy disclosure of level 1 assets** - During the year, management identified that in prior year one of the funds held by Legal & General was disclosed as level 1, however, the valuation of fund was based on underlying securities which were level 1 & level 2. Management has restated the fair value hierarchy of the fund in current year's account to level 2. Having performed the testing, we are of the view that correction considered by management is appropriate.



# Control Deficiencies



The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations			
<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.	<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.
		<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.

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	<b>2</b>	<p>No segregation of duties controls when posting manual journals</p> <p>We identified that there are no segregation of duties controls when posting manual journals directly to the ledger. We identified that management have implemented a compensating control to review any manual journals which impact balance sheet movements, however for the purposes of our audit, we are unable to rely on this control as it is informal in nature.</p>	<p>We discussed with management, and note that the issue is due to ERP's functionality issue, and cannot be addressed unless it is also changed in the administrating authority ERP.</p> <p>Management also notes that as a compensating control, the manual journals are reviewed by competent authority outside of ERP in an excel document on a regular basis.</p>

# Opening Balances Procedures



We have performed below procedures to gain assurance on Opening Balances:

- Evaluated the impact on the opening balances of any misstatements or control weaknesses reported by the predecessor audits.
- Confirmed that the methodology used by the predecessor auditor to determine materiality was appropriate.
- Reviewed the predecessor auditor's audit documentation and evidence obtained in order to identify potential material misstatements in opening balances. Misstatements reported were corrected by management.
- Reviewed the predecessor audit predecessor auditor's assessment and documentation of any identified instances of non-compliance with laws and regulations, significant litigation or claims, and significant related parties. No such instances were identified.
- Reviewed the auditor's audit documentation and evidence over significant accounts and disclosures. Misstatements reported were corrected by management.
- Inspected external confirmations obtained by the predecessor auditor and confirmed that all material confirmations were obtained and reportable differences were appropriately corrected by management..

# ISA (UK) 240 Revised: changes embedded in our practices



## Ongoing impact of the revisions to ISA (UK) 240

- ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.
- We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

## Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 6 and 7. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements*, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

# KPMG's Audit quality framework



**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.**

To ensure that every engagement lead and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

## ■ Commitment to continuous improvement

- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

## ■ Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

## ■ Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



## ■ Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

## ■ Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

## ■ Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members



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