



PUBLIC SERVICE PENSIONS BOARD

Report to those charged with governance on the 2020 audit

August 2021

*To help the public service
spend wisely*

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REPORT TO THOSE CHARGED WITH GOVERNANCE

INTRODUCTION

1. We have completed our audit of the 31 December 2020 financial statements of the Public Service Pensions Board (the “Board or PSPB”). International Standards on Auditing (ISAs) require that we communicate certain matters to those charged with governance of the Board in sufficient time to enable appropriate action. The matters we are required to communicate under ISAs include:
 - Auditors’ responsibilities in relation to the audit
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements
 - relationships that may bear on our independence, and the integrity and objectivity of our staff
 - expected modifications to the audit report
 - significant findings from our audit
2. This report sets out for the consideration of those charged with governance those matters arising from the audit of the financial statements for 2020 that we consider are worthy of drawing to your attention.
3. This report has been prepared for the sole use of those charged with governance and we accept no responsibility for its use by a third party. Under the Freedom of Information Act (2020 Revision) it is the policy of the Office of the Auditor General to release all final reports proactively through our website: www.auditorgeneral.gov.ky.

AUDITORS RESPONSIBILITIES IN RELATION TO THE AUDIT

AUDITOR’S RESPONSIBILITY UNDER INTERNATIONAL STANDARDS ON AUDITING

4. ISAs require that we plan and perform the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters and this report

includes only those matters of interest which came to our attention as a result of the performance of our audit.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

5. Management's responsibilities are detailed in the engagement letter signed by management on 5 October 2020 to which this engagement was subject. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS:

6. While we have no responsibility to perform any audit work on other information, including forward looking statements, containing audited financial statements, we will read the other information contained in the Ministry's annual report to consider whether such information is materially consistent with information appearing in the financial statements or our knowledge of the operations of the Ministry. We have not reviewed any other documents containing the Ministry's audited financial statements.

CONDUCT, APPROACH AND OVERALL SCOPE OF THE AUDIT

7. Information on the integrity and objectivity of the Office of the Auditor General and audit staff, and the nature and scope of the audit, were outlined in the Engagement Letter presented to the Chief Officer and follow the requirements of the ISAs. We are not aware of any impairment to our independence as auditors.

AUDIT REPORT, ADJUSTMENTS AND MANAGEMENT REPRESENTATION

8. We have issued an unmodified auditor's report on the 2020 financial statements with an emphasis of matter to draw attention to the disclosure note 13 which makes reference to the 2017 valuation rates being used for the 2020 financials.
9. A summary of audit adjustments made to the financial statements is attached in Appendix 1. There were no uncorrected misstatements arising from the audit.
10. As part of the completion of our audit we obtained written representations from management on aspects of the accounts and judgments and estimates made. These representations were provided to us on 30 April 2021.

SIGNIFICANT FINDINGS FROM THE AUDIT

SIGNIFICANT ACCOUNTING PRACTICES

11. We are responsible for providing our views about qualitative aspects of the Board's significant accounting practices, including accounting policies, accounting estimates and financial statement disclosures. Generally accepted accounting principles provide for the Board to make accounting estimates and judgments about accounting policies and financial statement disclosures.

We are, however, not aware of any new or controversial accounting practices reflected in the Board's financial statements.

12. Details of any significant findings from the audit are included in Appendix 2 along with management's response.

MANAGEMENT'S JUDGMENTS AND ACCOUNTING ESTIMATES

13. There were no matters which required management to make significant judgments or which required significant estimates.

GOING CONCERN DOUBTS

14. As a result of our audit, we did not become aware of any material uncertainties related to events and conditions that may cast significant doubt on the Board's ability to continue as a going concern.

SIGNIFICANT AND OTHER DEFICIENCIES IN INTERNAL CONTROL

15. We identified a number of significant and other matters relating to internal controls as part of our audit. Details are included in Appendix 2 along with management's response.

FRAUD OR ILLEGAL ACTS

16. Applicable auditing standards recognize that the primary responsibility for the prevention and detection of fraud and compliance with applicable acts and regulations rests with both those charged with governance of the entity and with management. It is important that management, with the

oversight of those charged with governance; place a strong emphasis on fraud prevention and fraud deterrence. They are also responsible for establishing and maintaining controls pertaining to the Board's objective of preparing financial statements that are presented fairly, in all material respects, in accordance with the applicable financial reporting framework and managing risks that may give rise to material misstatements in those financial statements. In exercising oversight responsibility, those charged with governance should consider the potential for management override of controls or other inappropriate influence over the financial reporting process.

17. As auditors, in planning and performing the audit, we are required to reduce audit risk to an acceptably low level, including the risk of undetected misstatements in the financial statements due to fraud. However, we cannot obtain absolute assurance that material misstatements in the financial statements will be detected because of such factors as the use of judgment, the use of testing, the inherent limitations of internal control and the fact that much of the audit evidence available to the auditor is persuasive rather than conclusive in nature.

18. No fraud or illegal acts came to our attention as a result of our audit.

SIGNIFICANT DIFFICULTIES ENCOUNTERED DURING THE COURSE OF OUR AUDIT

19. No serious difficulties were encountered in the performance of our audit.

DISAGREEMENTS WITH MANAGEMENT

20. We have had no disagreements with management resulting from our audit.

ANY OTHER SIGNIFICANT MATTERS

21. There were no other significant matters noted during the audit.

ACKNOWLEDGEMENTS

22. We would like to express our thanks to the staff of the Public Service Pensions Board for their help and assistance during the audit of this year's financial statements. This has enabled us to provide an audit report within the agreed timetable.

Yours sincerely,



Sue Winspear, CPFA

Auditor General

9th August 2021

APPENDIX 1 – SUMMARY OF CORRECTED MISSTATEMENTS

Number	Date	Name	Account No	Debit	Credit
1	12/31/2020	Work-in-Process - Sagitec	1730-00	1,402,604.17	
1	12/31/2020	New Pension Admin System Website	7428-00		1,402,604.17
Being entry to reclass Sagitec - Work in Process from expenses.					
2	12/31/2020	Salary Expense	7440-01	23,889.38	
2	12/31/2020	Payroll Liabilities	2008-00		23,889.38
Being entry to adjust vacation accrual.					
3	12/31/2020	Work in Process - Lynchval	1710-00	570,636.17	
3	12/31/2020	Accum Depreciation - Lynchval Ca	1720-00		570,636.17
To record Lynchval which was in use for 2020 and fully depreciated.					
4	12/31/2020	Other Income - IAS19	1550-01	184,502.51	
4	12/31/2020	Other Income	6300-00		184,502.51
To record year end billings for entities IAS 19 & 39 reports.					
5	12/31/2020	Benefits Paid - PSP Plan: 8000-05 PSP Commutat	8000-00	399,369.42	
5	12/31/2020	Accrued Liabilities - Over 60s	2011-00		399,369.42
Commutations, Cash-outs, Transfers related to 2020 but not yet accrued at year end.					
6	12/31/2020	Investment Management Fees- PIMC	7010-03	35,758.76	
6	12/31/2020	Unrealized Gain/Loss PIMCO GIS	6238-00		35,758.76
To correct misposting of Mg't Fees PIMCO due to CI amount used as USD amount in last quarter.					

Number	Date	Name	Account No	Debit	Credit
7	12/31/2020	Investment Management Fees-Wellington Global Qua	7010-12	483,202.29	
7	12/31/2020	Investment Management Fees-MS Global Opportunity	7010-13		483,202.29
Wellington amount misposted to a/c 7010-13 (Morgan Stanley) and Morgan Stanley amount misposted to Wellington.					
8	12/31/2020	Defined Benefit Cost - Post-retirement	7448-00	45,000.00	
8	12/31/2020	Post-retirement Health Care Cost	1780-00		23,000.00
8	12/31/2020	Remeasurement of employment bene	9000-00		22,000.00
Adjusting balance of PR Healthcare DB Obligation for FY 2020 (OCI & PL).					
9	12/31/2020	Remeasurement of employment bene	9000-00	272,000.00	
9	12/31/2020	Fund Surplus/Obligation	1799-00		272,000.00
Increase in DB Liability for FY 2020 (OCI).					
10	12/31/2020	Pension Expense - DB	7332-00	44,000.00	
10	12/31/2020	Fund Surplus/Obligation	1799-00		44,000.00
Increase in DB Liability for FY 2020 (OCI Portion).					
11	12/31/2020	Fund Surplus/Obligation	1799-00	32,000.00	
11	12/31/2020	Pension Expense - DB	7332-00		32,000.00
To record contributions received in FY 2020 for DB Participants.					

Number	Date	Name	Account No	Debit	Credit
12	12/31/2020	Opening Balance Equity	3001-00	612,000.00	
12	12/31/2020	Fund Surplus/Obligation	1799-00		612,000.00
True-up of the notional asset Reallocation to be adjusted to the opening asset value.					
13	12/31/2020	PSL Control: 1525-02 .CIG - PSL	1525-00	5,750.00	
13	12/31/2020	Contributions - DB PSL	5040-00		5,750.00
Water Authority December PSL not seen.					
				4,110,712.70	4,110,712.70

APPENDIX 2 - INTERNAL CONTROL MATTERS & SIGNIFICANT FINDINGS

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
<p>1. Lack of formal risk assessment policy</p> <p>There were no formal policies and procedures for identifying and responding to risk factors during the financial year end.</p> <p>However, it is acknowledged that PSPB has taken steps to have formal policies and procedures in place and completed the first phase of the risk and control assessment.</p>	<p>Implication:</p> <p>The absence of risk assessment procedures means that some controls may not be adequately designed to address those risks not identified.</p> <p>Recommendation:</p> <p>A robust risk assessment process should be put in place. It should be clearly outlined who is responsible for identification of risks, how often risk assessment is to be performed, how these are reported to those charged with governance and the process of what happens after a risk is identified such as the designing of controls to mitigate risk.</p>	<p>In 2016 the Public Service Pensions Board (“PSPB” or “the Authority”) initiated an organizational risk review within the Authority also known as Entity Risk Management (ERM). Phase one of the review focused on looking at PSPB’s business goals and reviewing the risks associated with them as well as the process of planning, organizing, leading and controlling risks within the Authority. Since that time the PSPB has continued working on establishing the risk function within the organization. No doubt the implementation of the new pension administration system means looking at new risks to PSPB’s business that arise out of the change of implementing a new IT system with its own set of requirements. Such as establishing a set of practices and processes supported by a risk-aware culture and enabling technology to improve decision making and performance.</p> <p>However, due to the COVID19 pandemic we experienced delays in progressing to Phase two as there were expectations for further training to occur for key members of the team and attempts to recruit a Risk Support Manager were unsuccessful. As a result, the Core Senior Executive Team agreed and the CEO has initiated a secondment arrangement</p>	

Observation	Risk/Implication and Recommendation	Management Response	Implementation Date
		with Mercer for a risk expert from their risk division to assist the Board, CEO and CRO to develop formal policies from which to create a systematic approach for governing the Authority's risk or an Integrated Risk Management Framework (IRMF). Next steps include a kick off meeting with the Audit and Risk Committee of the Board and a Board Risk Workshop on 26 August and 15 September, respectively.	