



LEPL Pension Agency

Report to the Supervisory Board

IFRS Financial Statements of the Pension Scheme for the year ended 31 December 2019

IPSAS Financial Statements of the Agency for the year ended 31 December 2019

3 June 2020

Introduction

To the Supervisory Board of LEPL Pension Agency

We are pleased to have the opportunity to communicate with the results of our audit of the IPSAS financial statements of LEPL Pension Agency (the 'Agency') and IFRS financial statements of the Pension Scheme as at and for the year ended 31 December 2019.

We are providing this report to enable you to consider our findings.

Our audit is complete.

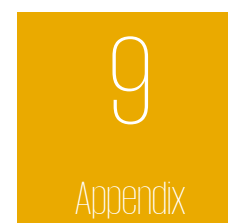
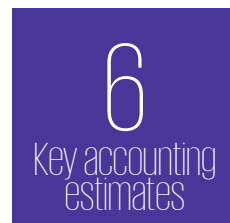
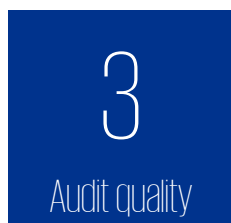
The points presented in the report are applicable to both sets if not otherwise stated.

We issued our audit opinions on the Agency's and Pension Scheme's financial statements on 29 May, 2020.

We issue an unmodified auditor's reports.

We draw your attention to the important notice on page 5 of this report, which explains:

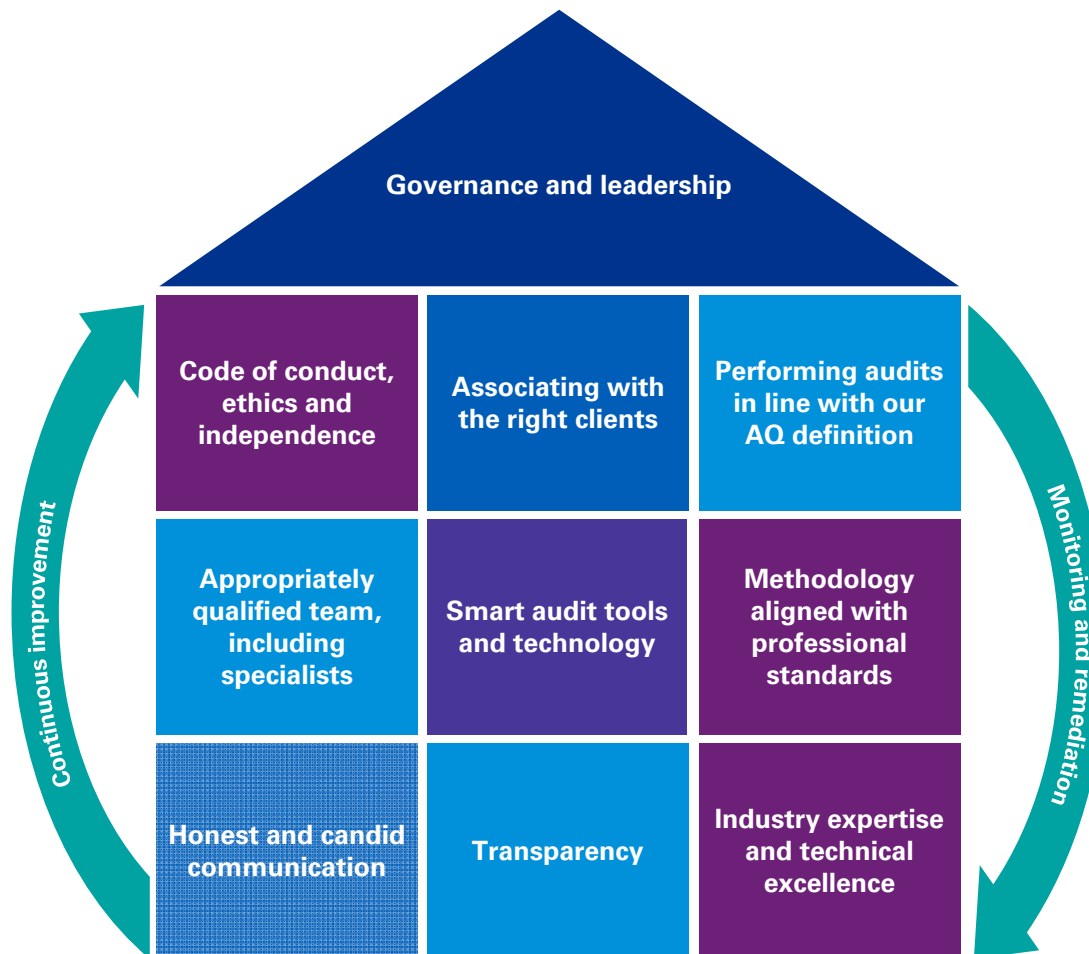
- the purpose of this report;
- the limitations on work performed; and
- the restrictions on distribution of this report.



Click on this symbol to bring you back to this page



How do we deliver audit quality?



What do we mean by audit quality?

Audit quality (AQ) is at the core of everything we do at KPMG.

We believe that it is not just about reaching the right opinion, but how we reach that opinion.

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

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

Our AQ Framework summarises how we deliver AQ.



Our audit findings

Audit focus areas

Significant risk:

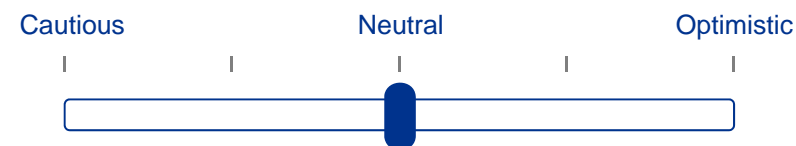
- Risk of error over the preparation financial statements of Pension Scheme in accordance with IAS 26 "Accounting and Reporting by Retirement benefit plans".

Uncorrected audit misstatements

No uncorrected misstatements were identified during our audit.

Accounting judgements relating to estimates

Page 7



Accounting judgements are mainly neutral.

Control deficiencies

No significant control deficiencies have been identified during our audit that we have concluded are of sufficient importance to merit being reported to those charged with governance.

Identified non-significant control deficiencies will be covered in our management letter, which will be issued in June 2020.



Audit focus areas

Relevant factors affecting our risk assessment

Complexity



1 Preparation of financial statements for Pension Scheme in accordance with IAS 26 - “Accounting and Reporting by Retirement Benefit Plans”.

Significant risks

- There is a risk of error that IFRS financial statements of Pension Scheme is not in compliance with IAS 26 requirements in all material respects.

Our response

We have performed the following procedures to address the significant risk:

- Reviewed IFRS financial statements (prepared based on IAS 26) of Pension Scheme;
- Ensured that all requirements presented IAS 26 *Accounting and Reporting by retirement benefit plants* is considered in the financial statements;
- Involved experienced KPMG Engagement Quality Control Reviewer.

- **No material misstatements or significant control deficiencies were identified.**



Audit focus areas

Relevant factors affecting our risk assessment

Susceptibility to bias/fraud



2 Management override of controls

Fraud risk related to unpredictable way management override of controls may occur

Significant risks

- Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Our response

- Identified and tested relevant controls over journal entries and post-closing adjustments.
- Evaluated the appropriateness of the accounting for significant transactions that are outside the component's normal course of business, or are otherwise unusual.
- Identified journal entries and other adjustments with characteristics that make them susceptible to fraud.
- Identified and examined material journal entries and other adjustments posted during the financial statement preparation process.
- **No cases of management override of controls have been identified.**



Key accounting estimates - Overview

Assessment of subjective areas - IPSAS Financial Statements of the Agency for the year ended 31 December 2019				
Asset/liability class	Current year	Prior year	Balance (GEL)	KPMG comment
Useful lives of property and equipment	●	●	545,969	Useful life for Property and equipment is determined by the management. We checked the reasonableness of the assumptions applied and concluded that the management estimate was free of bias in all material respect. The management was neutral in making the estimate.



Audit misstatements

The audit misstatements identified during the audit of IPSAS Financial Statements of the Agency for the year ended 31 December 2019 and their financial impact on the financial statements are summarised in the table on the right.

Management has approved the correction of the audit misstatements and they are reflected in the financial statements.

There is no uncorrected audit misstatements.

Audit misstatements

Corrected

Matter	Amount	Comment
Administrative expenses	63,740	Management of the Agency recognised video clips as Intangible assets and accrued amortisation expense during the year, which should be directly expensed based on IPSAS 31.
Intangible assets	(63,740)	
Intangible assets	6,374	
Depreciation and amortisation	(6,374)	



Appendix

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Newly effective standards

Standards	Expected impact				Effective for years ending 31 December		KPMG's guidance
	High	Moderate	Low	None	2019	2020	
<i>IFRS 16 Leases</i>				○	✓		Web article (with links to in-depth analysis)
<i>IFRIC 23 Uncertainty over Income Tax Treatments</i>				○	✓		Web article
<i>Prepayment features with Negative Compensation (Amendments to IFRS 9)</i>				○	✓		Web article
<i>Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)</i>				○	✓		Web article
<i>Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)</i>				○	✓		Web article
<i>Annual Improvements to IFRSs 2015-2017 Cycle (Amendments to IFRSs 3 & 11, IASs 12 & 23)</i>				○	✓		Web article
<i>Amendments to References to Conceptual Framework in IFRS Standards</i>				○		✓	Web article
<i>Definition of a Business (Amendments to IFRS 3)</i>				○		✓	Web article
<i>Definition of Material (Amendments to IAS 1 and IAS 8)</i>				○		✓	Web article
<i>Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)</i>				○		✓	Web article



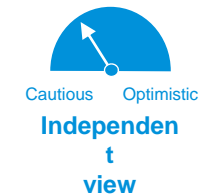
Required communications with the Supervisory Board

Type		Response
Our management representation letter	●	No specific matters to report.
Related parties	●	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by those charged with governance	●	There were no matters to report arising from the audit that, in our professional judgement, are significant to the oversight of the financial reporting process.
Control deficiencies	●	We will communicate to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not been previously communicated in writing subsequent to issuance of this letter.
Modifications to auditor's report	●	None
Emphasis of matter/Other matter	●	None
Actual or suspected fraud, non-compliance with laws or regulations or illegal acts	●	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.

Type		Response
Significant difficulties	●	No significant difficulties were encountered during the audit.
Disagreements with management or scope limitations	●	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	●	No material inconsistencies were identified related to other information in the annual report.
Breaches of independence	●	No matters to report. The engagement team and the firm have complied with relevant ethical requirements regarding independence.
Accounting practices	●	Over the course of our audit, we have evaluated the appropriateness of the Agency's accounting policies, accounting estimates and financial statement disclosures. In general, we believe that these are appropriate.
Significant matters discussed or subject to correspondence with management	●	Significant matters arising from the audit were discussed, or subject to correspondence, with management.



Independence (1 of 2)



As a firm, we are committed to being and being seen to be independent. We have strict rules and protocols to maintain our independence that meet [or exceed those of] the IESBA[†] Code of Ethics [as well as local independence and ethics rules in [jurisdiction]].

Our safeguards...



Dedicated ethics & independence partners



Global quality & risk management manual



Process for reporting breaches of professional standards and policy, and documented disciplinary policy



Restricted investments and relationships



Annual ethics and independence confirmation for staff



KPMG independence checkpoint tool



Ethics, independence and integrity training for all staff



International proprietary system used to evaluate threats arising from conflicts of interest

[†] International Ethics Standards Board for Accountants



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Independence (2 of 2)

Confirmation of Independence

ISA 260 requires us to communicate to the Those Charged with Governance on any matters which may be reasonably thought to bear on our independence, set out the safeguards in place in relation to these matters and confirm that we are independent.

KPMG is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG Partners and staff annually confirm their compliance with our ethics and independence manual, including in particular that they have no prohibited shareholdings.

In addition, we have underlying safeguards in place to maintain independence through:

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

Further safeguards include regular review of the composition of the audit team including rotation in accordance with the relevant regulations. Any significant new engagement undertaken for you is subject to acceptance procedures, requiring consultation with the Lead Partner.

Having considered the above and other relevant factors, in our professional judgement we are satisfied that KPMG is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partner and audit staff is not impaired.



Important notice

This report is presented under the terms of our audit engagement letter.

- 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 of our audit of the financial statements of LEPL Pension Agency (the 'Agency') prepared in accordance with International Public Sector Accounting Standards (IPSASs) and financial statements of Pension Scheme prepared in accordance with International Financial Reporting Standards ('IFRSs'), as at and for the year ended 31 December 2019.

This report has been prepared for those charged with governance, whom we consider to be the Supervisory Board, in order to communicate matters of interest as required by ISAs (including ISA 260 *Communication with Those Charged with Governance*), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This report is separate from our audit reports and does not provide an additional opinion on the Agency's and Pension Scheme'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.

Restrictions on distribution

The report is provided on the basis that it is only for the information of those charged with governance of the Agency; 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.



Signed Auditors' report and Financial Statements Issued on
29th May 2020

See appendix 1 and 2



Management representation letter

See appendix 3 and 4





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