Cambridgeshire Pension Fund

Initial Audit Plan

Year ended 31 March 2022

15 July 2022

EY

Building a better working world

Audit and Accounts Committee / Pension Fund Committee
Cambridgeshire County Council
New Shire Hall
Emery Crescent Enterprise Campus
Weald, Huntingdon
PE28 4YE

15 July 2022

Dear Audit and Accounts Committee/Pension Fund Committee Members,

We are pleased to attach our Initial Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. Its purpose is to provide the Audit and Accounts Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

Whilst we have not yet been able to issue our 2020/21 audit opinion, due to additional considerations on the Cambridgeshire County Council audit, this does not impact on our ability to issue this Audit Plan in respect of 2021/22. This Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit and Accounts Committee, Pension Fund Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 29 September 2022 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

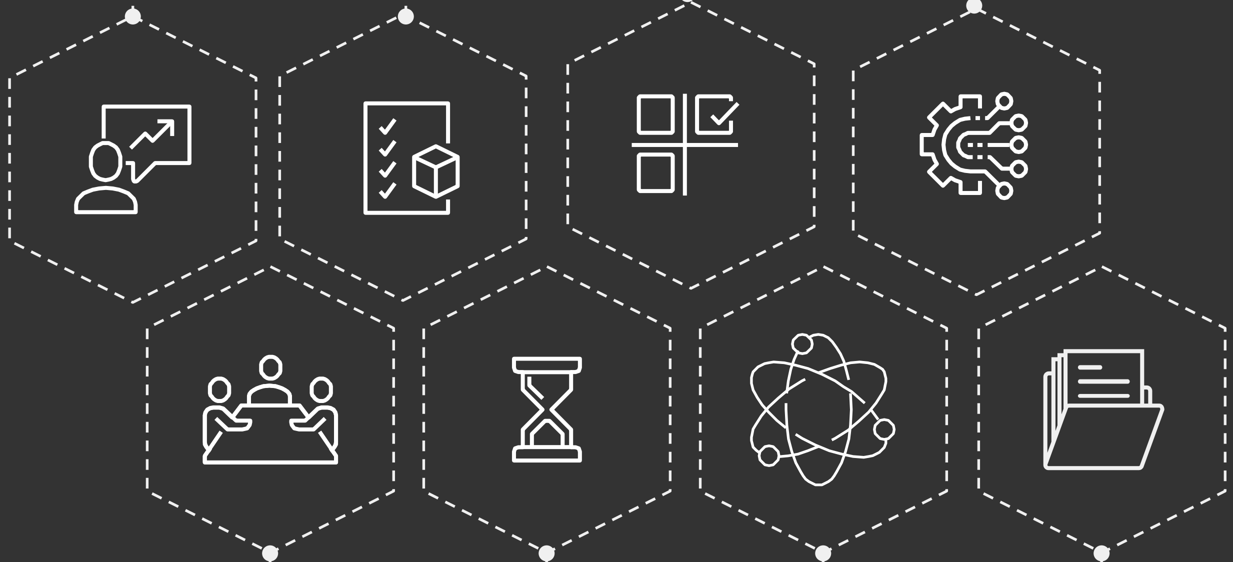
Mark Hodgson

Partner

For and on behalf of Ernst & Young LLP

Enc

Contents



Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/).The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Accounts Committee, Pension Fund Committee and management of Cambridgeshire Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Accounts Committee, Pension Fund Committee and management of Cambridgeshire Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Accounts Committee, Pension Fund Committee and management of Cambridgeshire Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2021/22 audit strategy

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error – management override and incorrect posting of investment journals	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks. We have considered the key areas where management has the specific opportunity and incentive to override controls. We have identified the main area as being around the investment income and asset valuations from the Custodian reports being incorrectly posted to the general ledger specifically through journal postings, to secure a more favourable reported financial position.
Valuation of unusual investments (Cambridge & Counties Bank)	Significant risk	No change in risk or focus	From a review of the draft 2021/22 financial statements, the Pension Fund has a £85.0 million investment in Cambridge and Counties Bank (CCB) Bank. The Pension Fund's investment in CCB is a hard to value Level 3 investment, as there is a lack of observable inputs and prices are not publicly available, and thus requires a specialist valuation model. The Fund transparently discloses in the notes to the accounts surrounding "Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty" that there is a risk that this could be under or over stated in the accounts. We consider this a non-routine investment for a Pension Fund, which therefore requires specialist valuation. We have not identified any issues in previous years and the Pension Fund continue to use an expert in this area, however this remains a material estimate based on a complex valuation model. On this basis, we have deemed it a significant risk.

Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of complex Level 3 Investments (unquoted investments)	Significant risk	Increase in risk	The Fund's investments include unquoted pooled investment vehicles such as Private Equity, Infrastructure and Property Investments. The valuation of such investments are classified under IFRS 13 as Level 3 investments. As such the valuation of Level 3 Investments are based on 'unobservable' inputs. Judgements are made by the Fund Managers to value these investments whose prices are not publicly available. The material nature of this type of investment, means that any error in judgement could result in a material valuation error. Increasing market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could therefore have a material impact on the carrying value of the investments within the financial statements. In the 2021/22 draft accounts, approximately 26% of the overall Fund, totalling £1,101 million, is within this investment type. As these investments are more complex to value, we have identified the Fund's investments in private equity and pooled property investments as a higher risk estimate, as even a small movement in the valuation assumptions could have a material impact on the financial statements.
Valuation of Level 2 Investments (Pooled Investments)	Inherent Risk	Increase in risk	The Fund's investments also include other Pooled Investment vehicles, totalling £2,932 million in the 2021/22 draft accounts. The valuation of such investments are classified under IFRS 13 as Level 2 Investments. As such the valuation of level 2 investments are based on 'inputs from observable data'. Given this is an estimate, we have raised an Inherent risk in regard to the valuation of assets of this nature.
IAS26 disclosure – Actuarial present value of promised retirement benefits	Area of Focus	No change in risk or focus	An actuarial estimate of the Pension Fund Liability to pay future pensions is calculated by an independent firm of Actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the previous triennial valuation in 2019/20, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability. There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2022.

Overview of our 2021/22 audit strategy

Materiality

Planning materiality

£43.0m

Materiality has been set at £43.0 million, which represents 1% of the net assets of the scheme available to fund benefits per the 2021/22 draft accounts. This is the same percentage we applied in the prior year. The Pension Fund is a public interest entity and a major local authority based on its size and as such, we have determined that planning materiality of 1% is an appropriate level.

Performance materiality

£32.3m

Performance materiality has been set at £32.3 million, which represents 75% of materiality. This is the upper end of our range based on the low level of errors identified in previous years and is consistent with the level we applied in the prior year.

Audit differences

£2.2m

We will report all uncorrected misstatements relating to the primary statements (Net Assets Statement and Pension Fund Account) greater than £2.2 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Accounts Committee.

Overview of our 2021/22 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Cambridgeshire Pension Fund (the Pension Fund) give a true and fair view of the financial transactions during the year ended 31 March 2022 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2022; and

- Our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Cambridgeshire County Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increase focus on, for example, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised). Therefore to the extent any of these or any other risks are relevant in the context of Cambridgeshire Pension Fund's audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements. We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2021/22 audit strategy

Timeline

The Ministry of Housing, Communities and Local Government established regulations to extend the target date for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years).

In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC) announced proposals to extend the deadline for the publication of audited accounts to 30 November 2022 for the 2021/22 financial statements.

We are working with the Pension Fund to deliver the audit in advance of 30 November but publication is linked to the audit of the County Council's accounts. We will work with the Council to ensure that appropriate publication wording is published by the date set out above. In Section 06 we include a provisional timeline for the audit.

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error - management override and incorrect posting of investment journals *

What is the risk?

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have considered the specific areas where management has the opportunity and incentive to override controls that could affect the Fund Account and the Net Asset Statement.

The valuation of investment assets and income are key metrics for measuring the performance of the pension fund. These values are taken from the custodian reports and posted to the general ledger through journals.

We consider that management has an incentive to increase these values reported in the financial statements and is in a unique position to influence the posting of investment income and year end investment asset valuation journals. There is therefore a risk this may result in misstatements either due to fraud or error.

We have therefore identified investment assets valuation and investment income as a fraud risk.

We will determine whether this risk is applicable to both investment assets and investment income depending on whether income is material once we have received the draft financial statements.

What will we do?

We will undertake our standard procedures to address fraud risk, which include:

- Identifying fraud risks during the planning stages
- Inquiry of management about risks of fraud and the controls put in place to address those risks
- Understanding the oversight given by those charged with governance of management's processes over fraud
- Consideration of the effectiveness of management's controls designed to address the risk of fraud
- Determining an appropriate strategy to address those identified risks of fraud
- Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

To respond to the specific fraud risk we have identified relating to the incorrect posting of journals we will perform the following additional audit procedures:

- Undertake a review of reconciliation to the fund managers and custodian reports and investigate any reconciling differences;
- Re-perform the detailed investment note using the reports we have acquired directly from the custodian or fund managers;
- Check the reconciliation of holdings included in the Net Assets Statement back to the source reports; and
- For quoted investment income we will agree the reconciliation between fund managers and custodians and ensure the amounts are consistent with fund managers and custodian reports..

We will utilise our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.

Our response to significant risks (continued)

Unusual Investments – Cambridge and Counties Bank (CCB)

What is the risk?

The Pension Fund's investment in Cambridge and Counties Bank (CCB) is a hard to value, Level 3 investment. This is because of a lack of observable inputs and prices which are not publicly available.

The CCB investment is based on valuations provided by a management specialist – Grant Thornton (GT). GT used a markets multiple approach in the prior year looking at price earnings ratio and price to book ratios, considering current and forecast earnings and ratios.

As this investment is not publicly listed and as such there is a degree of judgement in their valuation. From our review of the draft 2021/22 financial statements, the Fund had a £85.0 million investment in CCB.

The Pension Fund transparently discloses in the notes to the accounts surrounding "Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty" that there is a risk that this could be under or over stated in the accounts.

What will we do?

Our approach will focus on:

- Engaging with EY Transaction Valuation team who will undertake a review of the valuation model provided by GT considering the appropriateness of the assumptions and inputs used in determining the valuation;
- We will ensure that the CCB investment have been valued in accordance with the relevant accounting policies; and
- The audit team will test the accounting entries made in the statement of accounts to ensure they are consistent with the valuation provided by management's expert – GT.

Our response to significant risks (continued)

Valuation of Level 3 complex investments (unquoted investments)

What is the risk?

The Fund's investments include unquoted Pooled Investment vehicles such as Private Equity, Infrastructure and Property Investments.

Judgements are made by the investment managers to value these investments whose prices are not publicly available. The material nature of this type of investment, means that any error in judgement could result in a material valuation error.

Increasing market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could therefore have a material impact on the carrying value of the investments within the financial statements.

In the 2021/22 draft accounts, approximately 26% of the overall Fund, totalling £1,101 million, was within this investment type, and as these investments are more complex to value, we have identified the Fund's investments in private equity and pooled property investments as a higher risk estimate, as even a small movement in the valuation assumptions could have a material impact on the financial statements.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- Assessing the competence of management experts;
- Reviewing the basis of valuation for property investments and other unquoted investments and assessing the appropriateness of the valuation methods used;
- Where available, reviewing the latest audited accounts for the relevant fund managers and ensuring there are no matters arising that highlight material differences in the reported funds valuation within the financial statements; and
- Performing analytical procedures and checking the valuation output for reasonableness against our own expectations;
- Obtaining and reviewing internal control reports for fund managers for any internal control issues and assessing whether this would have an impact on the valuations provided by the fund managers;
- Review investment valuation disclosures to verify that significant judgements surrounding the valuation of Level 3 investments have been appropriately made in the Pension Fund's financial statements.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

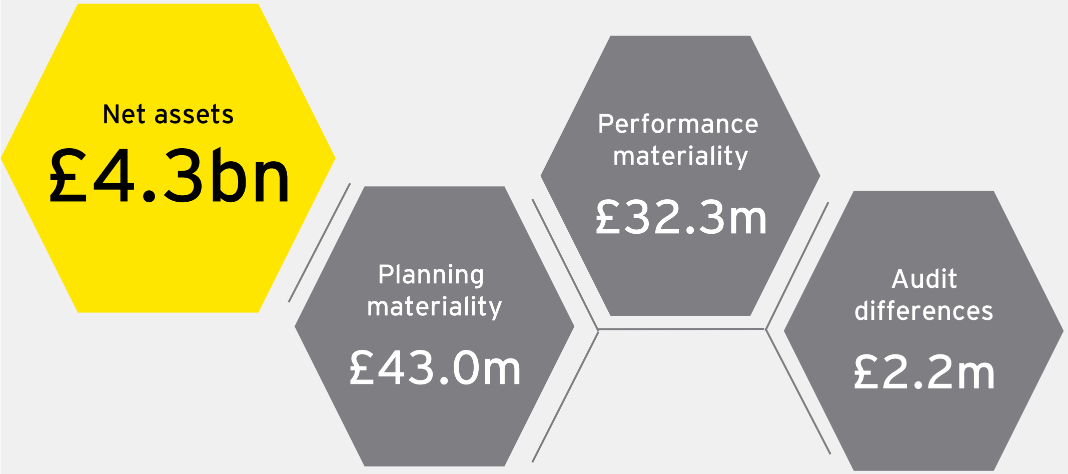
What is the risk/area of focus?	What will we do?
Valuation of Level 2 investments – Pooled Investments (Inherent risk) The Fund's investments also include other Pooled Investment vehicles totalling £2,932 million in the 2021/22 draft accounts. The valuation of such investments are classified under IFRS 13 as Level 2 investments. As such the valuation of Level 2 investments are based on 'inputs from observable data'. Given this is therefore an estimate, we have raised an inherent risk in regard to the valuation of assets of this nature.	In order to address this risk we will carry out a range of procedures including: ▶ Assessing the competence of management experts; ▶ Reviewing the basis of valuation for Pooled Investments and assessing the appropriateness of the valuation methods used; ▶ Reviewing the observable data points used in the calculation of the investment valuation; ▶ Obtaining and reviewing internal control reports for fund managers for any internal control issues and assessing whether this would have an impact on the valuations provided by the fund managers; and ▶ Review investment valuation disclosures to verify that significant judgements surrounding the valuation of Level 2 investments have been appropriately made in the Pension Fund's financial statements
IAS 26 disclosure – Actuarial present value of promised retirement benefits (area of audit focus) The Fund's IAS 26 calculation shows that the present value of promised retirement benefits amount to £5,774 million as at 31 March 2021. The figure is material and subject to complex estimation techniques and judgements by the Actuary, Hymans Robertson. The estimate is based on a roll-forward of data from the previous triennial valuation in 2019/20, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability. There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2022.	In order to address this risk we will carry out a range of procedures including: ▶ Assessing the competence of management experts, Hymans Robertson; ▶ Engaging with the NAO's consulting actuary and our EY Pensions Advisory Team to review the IAS26 approach applied by the actuary are reasonable and compliant with IAS26; and ▶ Ensuring that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary.

03 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2021/22 has been set at £43.0 million. This represents 1% of the Pension Fund's net assets within the 2021/22 draft accounts. It will be reassessed throughout the audit process. In an audit of a pension fund we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from the pension liabilities. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Accounts Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £32.3 million which represents 75% of planning materiality – consistent with the prior year level. We have considered factors such as the number of errors in the prior year, the adequacy of the control environment, and any significant changes in 2021/22 when determining the percentage of performance materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the Fund Account and Net Asset Statement.

Other uncorrected misstatements, such as reclassifications, misstatements in disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit and Accounts Committee, or are important from a qualitative perspective.

Materiality

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

We also identify areas where misstatement at a lower level than our overall materiality level might influence the reader and develop an audit strategy specific to these areas, including:

- Related party transactions we will test the completeness of related party disclosures and the accuracy of all disclosures by checking back to supporting evidence; and
- External Audit Fees, we will test the disclosure back to supporting evidence.

04 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to review and report on the Pension Fund's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers the Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK), as well as on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Cambridgeshire County Council.

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Other procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts; and
- Reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work.

For 2021/22 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit and Accounts Committee.

Internal Audit:

As in the prior year, we will review Internal Audit plans and the results of their work where relevant to this engagement. We consider these when designing our overall audit approach and when developing in our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

05 Audit team

Audit team

The engagement team is led by Mark Hodgson, who has significant experience on Pension Fund audits.

Mark is supported by Jacob McHugh, Audit Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team. The audit team will be led by Mary Springer, Senior.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pension Fund valuation and disclosures	Hymans Robertson (Cambridgeshire Pension Fund actuary) PwC (Consulting Actuary to the NAO on behalf of audit providers) EY Pensions Advisory Team
Cambridgeshire & Counties Bank Investment valuation	Grant Thornton (Cambridgeshire Pension Fund valuer for Cambridge & Counties Bank valuation) EY Transactions Team (for support on Cambridge & Counties Bank valuation)
Investment valuation	The Pension Fund's Custodian and Fund Managers

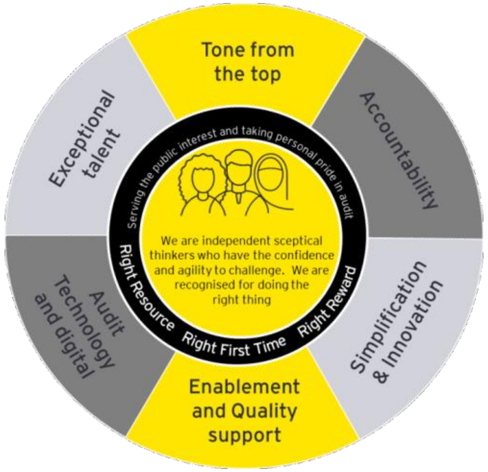
In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

Developing the right Audit Culture

In July 2021, EY established a UK Audit Board (UKAB) with a majority of independent Audit Non-Executives (ANEs). The UKAB will support our focus on delivering high-quality audits by strengthening governance and oversight over the culture of the audit business. This focus is critical given that audit quality starts with having the right culture embedded in the business.



Our audit culture is the cement that binds together the building blocks and foundation of our audit strategy. We have been thoughtful in articulating a culture that is right for us: one that recognises we are part of a wider, global firm and is clear about whose interests our audits serve.

There are three elements underpinning our culture:

1. Our people are focused on a **common purpose**. It is vital we foster and nurture the values, attitudes and behaviours that lead our people to do the right thing.
2. The essential attributes of our audit business are:
   - **Right resources** – We team with competent people, investing in audit technology, methodology and support
   - **Right first time** – Our teams execute and review their work, consulting where required to meet the required standard
   - **Right reward** – We align our reward and recognition to reinforce the right behaviours
3. The six pillars of **Sustainable Audit Quality** are implemented.

01 Tone at the top

The internal and external messages sent by EY leadership, including audit partners, set a clear tone at the top - they establish and encourage a commitment to audit quality

02 Exceptional talent

Specific initiatives support EY auditors in devoting time to perform quality work, including recruitment, retention, development and workload management

03 Accountability

The systems and processes in place help EY people take responsibility for carrying out high-quality work at all times, including their reward and recognition

04 Audit technology and digital

The EY Digital Audit is evolving to set the standard for the digital-first way of approaching audit, combining leading-edge digital tools, stakeholder focus and a commitment to quality

05 Simplification and innovation

We are simplifying and standardising the approach used by EY auditors and embracing emerging technologies to improve the quality, consistency and efficiency of the audit

06 Enablement and quality support

How EY teams are internally supported to manage their responsibility to provide high audit quality

A critical part of this culture is that our people are **encouraged and empowered to challenge and exercise professional scepticism** across all our audits. However, we recognise that creating a culture requires more than just words from leaders. It has to be reflected in the lived experience of all our people each and every day enabling them to challenge themselves and the companies we audit.

Each year we complete an audit quality culture assessment to obtain feedback from our people on the values and behaviours they experience, and those they consider to be fundamental to our audit quality culture of the future. We action points that arise to ensure our culture continues to evolve appropriately.

<u>2021 Audit Culture Survey result</u>
A cultural health score of 78% (73%) was achieved for our UK Audit Business

We bring our culture alive by investing in three priority workstreams:

- Audit Culture with a focus on professional scepticism
- Adopting the digital audit
- Standardisation

This investment has led to a number of successful outputs covering training, tools, techniques and additional sources. Specific highlights include:

- Audit Purpose Barometer
- Active Scepticism Framework
- Increased access to external sector forecasts
- Forensic risk assessment pilots
- Refreshed PLOT training and support materials, including embedding in new hire and trainee courses
- Digital audit training for all ranks
- Increased hot file reviews and improved escalation processes
- New work programmes issued on auditing going concern, climate, impairment, expected credit losses, cashflow statements and conducting effective group oversight
- Development of bite size, available on demand, task specific tutorial videos

"A series of company collapses linked to unhealthy cultures…..have demonstrated why cultivating a healthy culture, underpinned by the right tone from the top, is fundamental to business success."

Sir John Thompson
Chief Executive of the FRC

06 Audit timeline

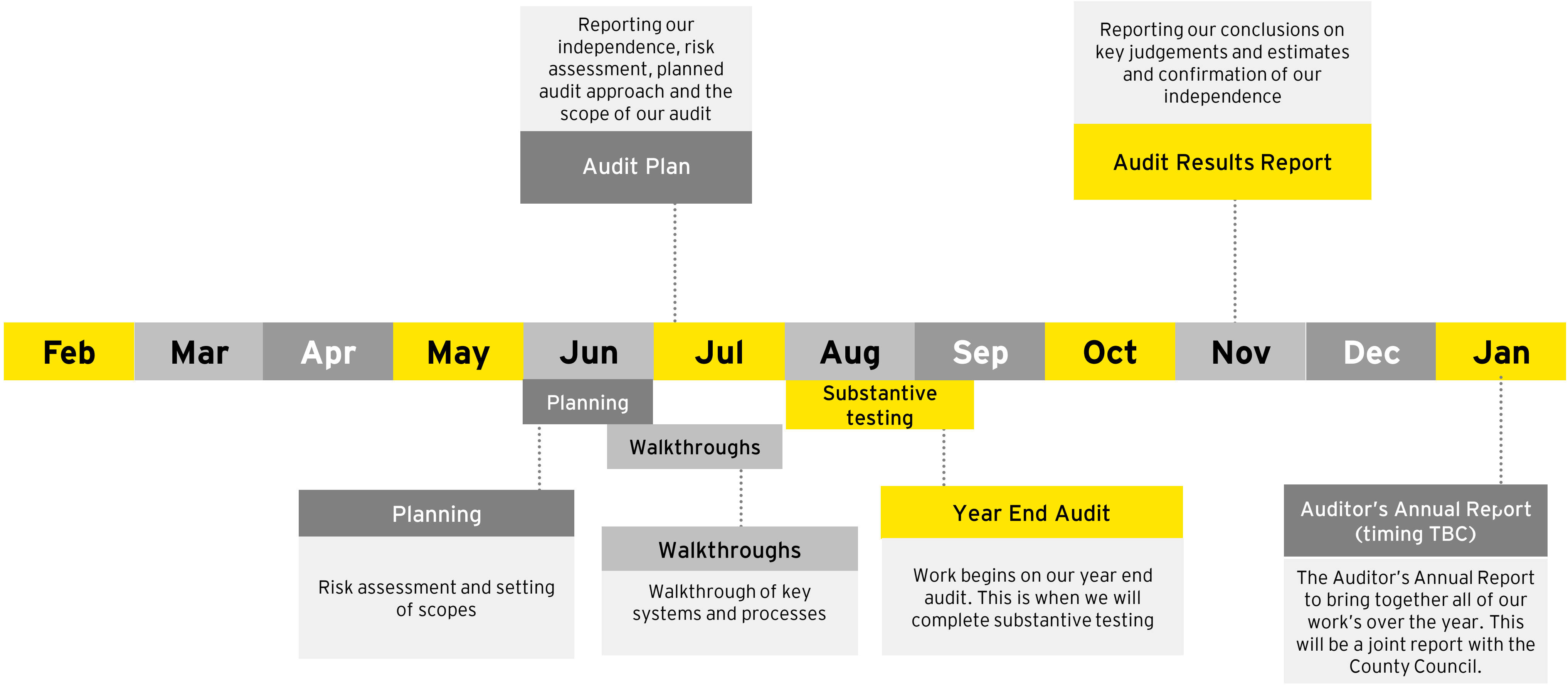
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Audit and Accounts Committee and we will discuss them with the Audit and Accounts Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.



07 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	**Final stage**
▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence.	▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit/additional services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non –audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Pension Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you. The non-audit fees subject to the fee cap cannot exceed 70% of the average audit fees for the past three years.

At the time of writing, there are no non-audit services provided by us to the Pension Fund.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Pension Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats
Other threats, such as advocacy, familiarity or intimidation, may arise. There are no other threats at the date of this report.

Other Communications

EY Transparency Report 2021
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021: https://www.ey.com/en_uk/about-us/transparency-report-2021

08 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	Planned fee 2021/22	Scale fee 2021/22	Final Fee 2020/21
	£'s	£'s	£'s
Total Fee – Code work	17,256	17,256	17,256
Changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	56,305	-	56,305
Additional work required for specific additional procedures (including revised estimates standard) (Note 2)	TBC		TBC
Additional fee in respect of work on behalf of admitted body auditors (recharges to the Pension Fund) (Note 3)	8,800	-	8,000
Total fees	**TBC**	**17,256**	**TBC**

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Pension Fund; and
- The Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

All fees exclude VAT

Note 1: As noted on Page 8, we do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. For 2021/22 the scale fee has again been re-assessed to take into account the same recurring risk factors as in 2019/20 and 2020/21 and is subject to determination by PSAA Ltd – subject to annual price uplifts.

Note 2: For 2020/21 and 2021/22 there are a number of additional risk factors to the audit as outlined within this audit plan – such as the impact of Covid-19 and the valuation of Cambridge & Counties Bank. As our 2020/21 audit has not yet formally concluded, we have not calculated the additional fee that will be proposed to Management. The final fee will be subject to determination by PSAA Ltd. The same approach will apply in respect of the 2021/22 audit.

Note 3: We plan to charge an additional fee of £8,800 in 2021/22 to take into account the work required to respond to IAS19 assurance requests from admitted bodies and their auditors. The Pension Fund can recharge this fee to the relevant admitted bodies.

Appendix B

Required communications with the Audit and Accounts Committee

We have detailed the communications that we must provide to the Audit and Accounts Committee**.**

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit and Accounts Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Initial Audit Plan - 29 September 2022 – Audit and Accounts Committee
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report – 24 November 2022 – Audit and Accounts Committee
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report – 24 November 2022 – Audit and Accounts Committee

Required communications with the Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Audit Results Report – 24 November 2022 – Audit and Accounts Committee
Subsequent events	▸ Enquiries of the Audit and Accounts Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit Results Report – 24 November 2022 – Audit and Accounts Committee
Fraud	▸ Enquiries of the Audit and Accounts Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit and Accounts Committee responsibility	Audit Results Report – 24 November 2022 – Audit and Accounts Committee
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report – 24 November 2022 – Audit and Accounts Committee

Required communications with the Audit and Accounts Committee (continued)

Required communications	What is reported?	Our Reporting to you: When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Initial Audit Plan - 29 September 2022 – Audit and Accounts Committee Audit Results Report – 24 November 2022 – Audit and Accounts Committee
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report – 24 November 2022 – Audit and Accounts Committee
Consideration of laws and regulations	▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit and Accounts Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Accounts Committee may be aware of	Audit Results Report – 24 November 2022 – Audit and Accounts Committee
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Audit Results Report – 24 November 2022 – Audit and Accounts Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report – 24 November 2022 – Audit and Accounts Committee

Appendix B

Required communications with the Audit and Accounts Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report – 24 November 2022 – Audit and Accounts Committee
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report – 24 November 2022 – Audit and Accounts Committee
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Initial Audit Plan - 29 September 2022 – Audit and Accounts Committee Audit Results Report – 24 November 2022 – Audit and Accounts Committee Auditor's Annual Report – January 2023 (date TBC) – Audit and Accounts Committee.

Appendix C

Additional audit information

Objective of our audit
Our objective is to form an opinion on the Pension Fund's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting. Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit and Accounts Committee. The audit does not relieve management or the Audit and Accounts Committee of their responsibilities.

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Pension Fund's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Pension Fund to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, the Audit and Accounts Committee reporting appropriately addresses matters communicated by us to the Audit and Accounts Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Appendix C

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	▸ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Report.
Other procedures	▸ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.