

Cambridgeshire Pension Fund

Pension Fund Committee

18 July 2024

Report by: Head of Pensions

Subject: KPMG Audit Plan for Cambridgeshire Pension Fund 2023-24

Purpose of the Report: To present the Audit Plan from KPMG

Recommendations: The Pension Fund Committee:

- a) Note the Audit Plan 2023-2024 and the presentation by KPMG.

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1. Executive Summary

- 1.1 KPMG act as the Cambridgeshire Pension Fund's external auditors. As the external auditors they have produced a plan of the 2023-24 audit of the Cambridgeshire Pension Fund.
- 1.2 The significant risks and areas of focus for KPMG are management override of controls and the valuation of Cambridge and Counties Bank.
- 1.3 Other audit risks being considered by KPMG are:
 - 1.3.1 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded;
 - 1.3.2 Valuation of Level 1, 2 and 3 investments is misstated;
 - 1.3.3 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;
 - 1.3.4 The actuarial position of the scheme is not appropriately presented in the financial statements.
- 1.4 Materiality for the financial statements is £42.3m, 1% of total prior year assets
Materiality misstatements to be reported is £2.1m
- 1.5 The total audit fees for the year are £87,000, excluding IAS 19 letters for employer body auditors.

2. Report background

- 2.1 This is KPMG's first year as the Cambridgeshire Pension Fund's external auditors.

2.2 The Pension Fund's Statement of Accounts (SOA) form part of the Council's Statement of Accounts. These are audited by the Council's external auditor KPMG. The auditor confirms whether, in their opinion, the SOA reflects a true and fair view of the financial position of the authority (and the Fund within it) for the financial year 1st April to 31st March and that the SOA is free from material misstatement.

3. Content, Responsibilities and timeline

3.1 KPMG have been appointed as Independent External Auditors to provide an audit opinion on:

3.1.1 whether the financial statements of Cambridgeshire Pension Fund give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2024 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2024; and

3.1.2 the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Cambridgeshire County Council.

3.2 KPMG have produced an audit plan, setting out identified audit risks, expected materiality levels, the scope of their audit, the team, and the planned delivery of the audit process.

3.3 Page 5 of the accompanying report identifies the key risks and areas of auditor focus, details the Auditor's planned approach to these risk areas. These, along with the Fund's approach are summarised in the following table.

Risk/area of focus	Audit approach	Fund approach
Management override of controls	<ul style="list-style-type: none"> • Evaluate the design and implementation of controls over journal entries and post-closing adjustments • Assess the appropriateness of changes compared to prior year • Assess accounting estimates for biases • Assess the business rationale and the appropriateness of accounting for significant transactions • Evaluate selection and application of accounting policies • Analyse all journals posted through the year 	<ul style="list-style-type: none"> • Ensure process notes include identified risks • Provide written process notes which detail controls • Make copy journals available • Provide working papers demonstrating the value used for the journals
Cambridge and Counties Bank (CCB) valuation	<ul style="list-style-type: none"> • Obtain copies of the CCB valuation report • Evaluate the design and implementation of controls in place • Test the completeness and accuracy of data underlying the valuation • Engage KPMG specialists to review the valuation methodology and assumptions 	<ul style="list-style-type: none"> • Instruct Grant Thornton to provide a valuation report for Cambridge and Counties Bank and make this, and supporting information, available to the auditor. • Provide working papers demonstrating the value used at the year end and

Risk/area of focus	Audit approach	Fund approach
	<ul style="list-style-type: none"> Evaluate the design and implementation of controls in place for management to review the valuation. 	<p>the valuation methodology.</p>
<p>Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded</p>	<ul style="list-style-type: none"> Gain an understanding of the control environment at all the investment managers and custodian by reviewing their internal controls Obtain direct confirmations from the custodian and investment managers Vouch purchases and sales to investment manager and custodian reports Recalculate change in market value and compare to overall investment return 	<ul style="list-style-type: none"> Provide working papers demonstrating the value used at the year end and the valuation methodology. Provide quarterly reconciliation reports and performance reports Liaise with Investment Managers and custodian to provide information to auditors on a timely basis.
<p>Valuation of Level 1, 2 and other level 3 investments are misstated.</p>	<ul style="list-style-type: none"> Use of the in-house investment valuation team, iRADAR – approach differs per investment type and is set out on Page 9 of the audit plan Obtaining unaudited Net Asset Value (NAV) statements for Level 3 pooled investment vehicles. 	<ul style="list-style-type: none"> Provide working papers demonstrating the value used at the year end and the valuation methodology. Provide quarterly reconciliation reports and performance reports Liaise with Investment Managers and custodian to provide information to auditors on a timely basis.
<p>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 Adjustment Schedule</p>	<ul style="list-style-type: none"> Inspecting that deficit contributions received into the Fund in accordance with the Rates and Adjustments certificate Contributions are received on a timely basis Develop an expectation of the normal employer and employee contributions receivable in the year reflect changes in active members, pensionable salary and any changes in contribution rates Vouch that there are 12 month receipts in the year assessing the trend of receipts 	<ul style="list-style-type: none"> Provide working papers demonstrating contributions received and reconciliations between the Rates and Adjustment certificate Provide analytical assessment of changes in contributions received during the year.
<p>The actuarial position of the Fund is not appropriately presented in the financial statements</p>	<ul style="list-style-type: none"> Understand the processes in place to set the assumptions used in the valuation Evaluate the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations 	<ul style="list-style-type: none"> Ensure process notes include identified risks. Provide written process notes which detail controls. Liaise with Hymans to provide information to the

Risk/area of focus	Audit approach	Fund approach
	<ul style="list-style-type: none"> • Test the data provided used within the scheme valuation • Compare the key assumptions applied with those used by the administering authority. 	auditors on a timely basis,

- 3.4 Page 3 of the accompanying report sets out the materiality levels for the audit, based on 1% of net assets of £4.3bn, which are planned to be:

Audit Area	Materiality
Materiality for the Financial statements as a whole	£42.3m
Procedure designed to detect individual errors at this level	£27.4m
Audit Differences	£2.1m

- 3.5 Page 18 of the accompanying report sets out the proposed timeline for delivery of the audit. The key planned milestones are:

Milestone	Planned dates	Status
Planning and Interim fieldwork	March 2024	Completed
Report audit plan	June/July 2024	Completed
Year end Audit	July -September 2024	Ongoing
Audit Results Report	September/October 2024	

- 3.6 Page 17 sets out the audit fees for the year. £87,000 is the fee for auditing the financial statements. For comparison, the 2022-23 fee was £26k. The scale fee does not include the impact of ISA315, which may increase audit hours by 10% to 20%. External audit fees are agreed with Public Sector Audit Appointments (PSAA).

4. Relevant Pension Fund Objectives

- 4.1 To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- 4.2 To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- 4.3 To ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the

appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.

- 4.4 To continually monitor and measure clearly articulated objectives through business planning.
- 4.5 To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
- 4.6 To provide scheme members with up-to-date information about the scheme in order that they can make informed decisions about their benefits.
- 4.7 To seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.

5. Finance & Resources Implications

- 5.1 None, this paper is for information only.

6. Risk Management

- 6.1 The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below -

Risk	Residual risk rating
Contributions to the Fund are not received on the correct date and/or for the correct amount	Amber
Fund assets are not sufficient to meet obligations and liabilities.	Amber
Information may not be provided to stakeholders as required	Green
Those charged with governance are unable to fulfil their responsibilities effectively	Green
Custody arrangements may not be sufficient to safeguard Pension Fund assets.	Green
Failure to administer the scheme in line with regulations and guidance.	Green
Pension Fund investments may not be accurately valued.	Green
Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

The Fund's full risk register can be found on the Fund's website at the following link:

<https://pensions.northamptonshire.gov.uk/governance/key-documents/cambridgeshire/>

7. Communication Implications

7.1 This information only paper does not require any further communication activities.

8. Legal Implications

8.1 No material issues have been identified which may give rise to legal liability and/or risk from an administering authority perspective. Squire Patton Boggs have conducted a review of the paper for legal implications.

9. Consultation with Key Advisers

9.1 The Pension Fund Accounts are produced utilising information and advice provided by Investment Managers, the Fund's Custodian Northern Trust and the Fund's Actuary, Hymans Robertson.

10. Alternative Options Considered

10.1 Not applicable.

11. Background Papers

11.1 Not applicable.

12. Appendices

12.1 Appendix A – Audit Plan 2023-24

Checklist of Key Approvals

Is this decision included in the Business Plan? Not applicable.

Will further decisions be required? If so, please outline the timetable here. No.

Is this report proposing an amendment to the budget and/or policy framework? No.

Has this report been cleared by Chief Finance Officer/Section 151 Officer? Sarah

Heywood -

10/07/2024

Has this report been cleared by Head of Pensions? Yes. Mark Whitby - 24/06/2024

Has this report been cleared by Legal Services? Emma Duncan – 10/07/2024