

A photograph of a meeting table with documents and hands pointing at them. The table is white, and there are several sheets of paper with text on it. A person's hand is pointing at a document on the left, and another person's hand is pointing at a document on the right. A smartphone is visible on the table. The background is slightly blurred, showing a person in a yellow shirt.

Cambridgeshire Pension Fund

Provisional Audit Plan Year ended 31 March 2021

10 May 2021



Audit and Accounts Committee and Pension Fund Committee
Shire Hall,
Castle Hill,
Cambridge, CB3 0AP

10 May 2021

Dear Audit and Accounts Committee/ Pension Fund Committee Members,

2020/21 Provisional External Audit Plan - Cambridgeshire Pension Fund

We are pleased to attach our Provisional 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 2020/21 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.

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. Our planning procedures remain ongoing; we will inform the Audit and Accounts Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee.

This report is intended solely for the information and use of the Audit and Accounts Committee, the 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 the 01 June 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young LLP
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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.psa.co.uk/audit-quality/statement-of-responsibilities/>). 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 April 2018)" issued by the PSAA 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 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, 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, 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 2020/21 audit strategy



Overview of our 2020/21 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	Fraud risk	No change in risk or focus	<p>As identified in ISA (UK and Ireland) 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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>
Investment Income and Asset valuation - Investment Journals	Fraud risk	No change in risk or focus	<p>We have considered the key areas where management has the specific opportunity and incentive to override controls.</p> <p>We have identified the main area as being around the Investment Income and Asset valuations being taken from the Custodian reports and incorrectly posted to the general ledger in the year, specifically through journal postings, to secure a more favourable reported financial position.</p>
Unusual Investments - Cambridge and Counties Bank (CCB)	Significant Risk	No change in risk or focus	<p>From a review of the 2019/20 financial statements, the Pension Fund has a £58.0 million investment in 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.</p> <p>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.</p> <p>We consider this an 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.</p>

Overview of our 2020/21 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 investments (Unquoted investments)	Inherent risk	No change in risk or focus	<p>The Fund's investments include unquoted pooled investment vehicles such as private equity and property investments.</p> <p>Key judgements are taken by the Investment Managers to value these investments whose prices are not publically available. The material nature of this type of investment, means that any error in judgement could result in a material valuation error.</p> <p>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.</p> <p>In 2019/20 approximately 20% of the overall fund fell 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.</p>
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	Area of focus	Updated - from Inherent risk to area of focus.	<p>The Actuarial Present Value of Promised Retirement benefits is an actuarial estimate of the pension fund liability to pay future pensions 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.</p> <p>Within the calculation for the disclosure note, the valuation may use inappropriate assumptions to value the liability as at the 31 March 2021.</p>

Overview of our 2020/21 audit strategy

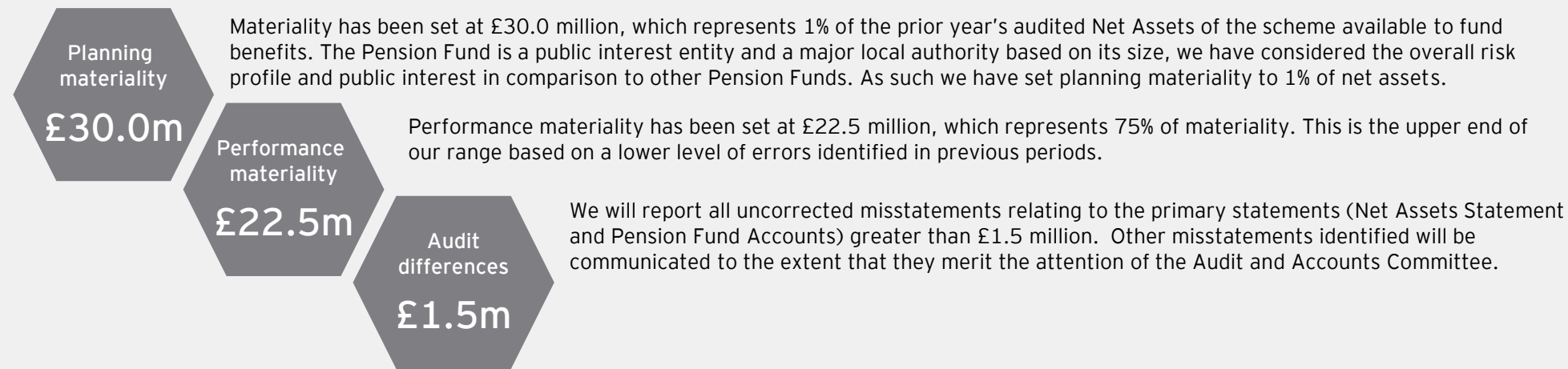
The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Accounts Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Going Concern	Area of focus	No change from 2019/20, but re-focused considering ISA570 revised.	<p>There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Fund to ensure its going concern assessment, including its supporting cashflow forecast, is thorough and appropriately comprehensive.</p> <p>The Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment, and in particular highlights any material uncertainties it has identified.</p> <p>In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit and we need to ensure we comply fully with the requirements of the revised standard,</p>

Overview of our 2020/21 audit strategy

Materiality



Accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required. See page 14 for further details of the revised auditing standard.

Overview of our 2020/21 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 of the Pension Fund during the year ended 31 March 2021 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2021; 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 and the increased regulatory focus on audit quality. Therefore, to the extent any of these or any other risks that 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.

Audit team changes

Jacob McHugh will be taking on the role of Audit Manager for the engagement, having acted as the Lead Senior for this audit in previous years - which demonstrates our succession planning. Similarly, Sapheena Garcha will be taking on the role of Lead Senior for the engagement, having previously been a team member for the engagement.

Mark Hodgson remains in his role as Partner in Charge of the audit.



02

Audit risks



Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks *) 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.

	What is the risk?	What will we do?
<p>Misstatements due to fraud or error*</p>	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 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.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p> <p>As part of our work to identify fraud risks during the planning stages, we have identified those areas of the accounts that involve management estimates and judgements as the key areas at risk of manipulation.</p> <p>These are set out on the following page.</p>	<p>We will undertake our standard procedures to address fraud risk, which include:</p> <ul style="list-style-type: none">▶ Identifying fraud risks during the planning stages.▶ Inquiring 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.▶ Considering 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;<ul style="list-style-type: none">▶ testing of journal entries and other adjustments in the preparation of the financial statements;▶ reviewing accounting estimates for evidence of management bias; and▶ evaluating the business rationale for significant unusual transactions. <p>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.</p>

Audit risks

Our response to significant risks (continued)

Investment income and asset valuations - Investment Journals*

What is the risk?

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

We have identified the main area as being:

- ▶ Investment Income (£34.4 million in 2019/20) and Asset valuations (£2.979 billion at 31 March 2020) being taken from the Custodian reports and incorrectly posted to the general ledger in the year, specifically through journal postings.

What will we do?

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

- ▶ Test journals at year-end to ensure there are no unexpected or unusual postings;
- ▶ Undertake a review of reconciliations to the fund manager 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 back to the source reports.

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 audit of the 2019/20 financial statements, the Fund had a £58.0 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.

Audit risks

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?

Valuation of Complex Investments (Unquoted Investments)

The Pension Fund's investments include unquoted pooled investment vehicles such as private equity, and property investments.

Key judgements are taken 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.

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 2020/21 approximately 20% of the overall fund fell 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.

IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits

The Pension Fund's IAS 26 calculation shows that the present value of promised retirement benefits amount to £4.305 billion as at 31 March 2020.

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.

Within the calculation for the disclosure note, the valuation may use inappropriate assumptions to value the liability as at the 31 March 2021.

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.

In order to consider this area of focus 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.

Audit risks

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.

What is the risk/area of focus?

Going Concern

There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Fund to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Fund is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit.

What will we do?

In order to consider this area of focus we will carry out a range of procedures including:

- ▶ Challenge management's identification of events or conditions impacting going concern.
- ▶ Test management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- ▶ Review the Fund's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- ▶ Undertake a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- ▶ Challenge the disclosure made in the accounts in respect of going concern and any material uncertainties.

Other areas of audit focus (Continued)

What is the risk/area of focus?

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.



03

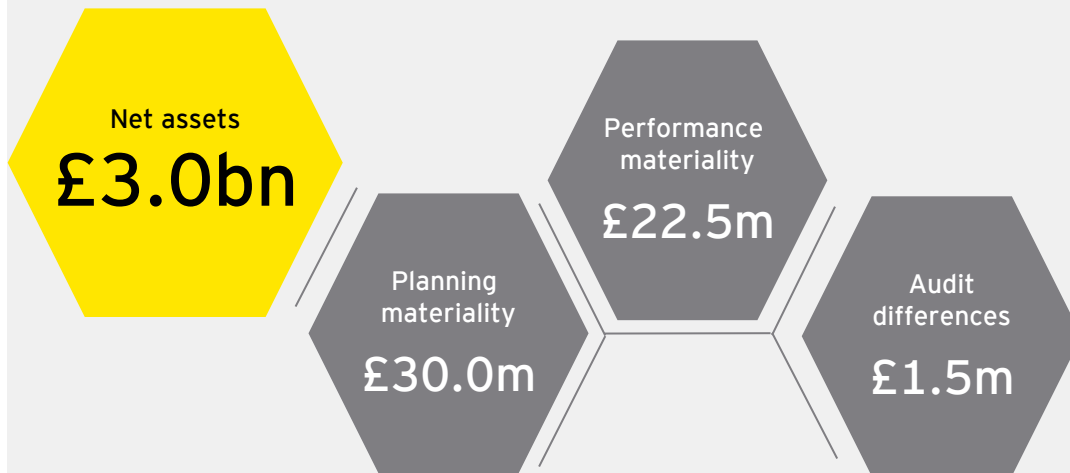
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £30.0 million. This represents 1% of the Pension Fund's prior year audited net assets. 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 pension liabilities. We have provided supplemental information about audit materiality in Appendix D.



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 £22.5 million which represents 75% of planning materiality - consistent with the prior year level. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2020/21 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 and Pension Fund Committee, or are important from a qualitative perspective.



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.

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;
- ▶ 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 2020/21 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

Audit team

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

Mark is supported by Jacob McHugh, Assistant Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the senior accountant. The audit team will be lead by Sapheena Garcha, 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
Pensions Liability	Hymans Robertson (Cambridgeshire Pension Fund actuary) PwC (Consulting Actuary to the NAO on behalf of audit providers) EY Pensions Advisory Team (if required)
Investment Valuation	The Pension Fund's Custodian and Fund Managers Grant Thornton (Cambridgeshire Pension Fund valuer for Cambridge & Counties Bank valuation) EY Transactions Team (for support on Cambridge & Counties Bank valuation)

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.



06

Audit timeline



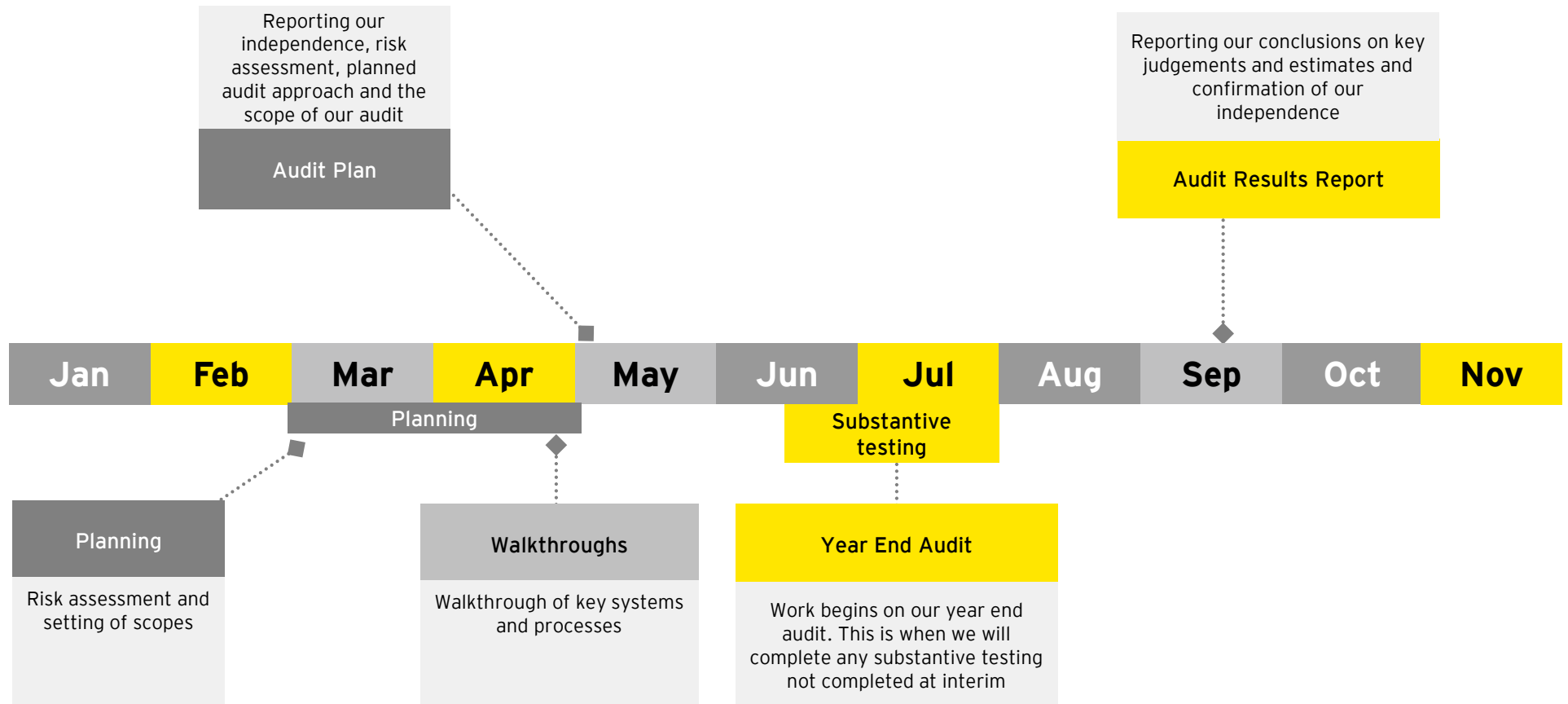


Audit timeline

Timetable of communication and deliverables

Timeline

Below is a proposed timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21. 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 June 2016, 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
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the 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. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation] 	<ul style="list-style-type: none"> ▶ 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 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; ▶ Written confirmation that all covered persons are independent; ▶ 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 any contingent fee arrangements for non-audit services provided by us or our network firms; 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 also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

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 permissible non-audit services 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. The ratio of non-audit fees to audit fees is not permitted to exceed 70%.

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.

Relationships, services and related threats and safeguards

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.

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 2020

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 2020: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2020/ey-uk-2020-transparency-report.pdf



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.

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£'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)	45,044	-	45,044
Additional work required for Covid-19 considerations (See Note 2)	To be confirmed	-	12,241
Additional work in respect of revised estimates auditing standard (see page 14)	To be confirmed	-	-
Additional Audit Fee in respect of work on behalf of Admitted Body auditors (recharged to the Pension Fund) (Note 3)	8,000	-	11,500
Total fees	To be confirmed	17,256	86,041

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 Pension Fund in advance.

All fees exclude VAT

Note 1: For 2019/20 and 2020/21 the scale fee has been re-assessed to take into account a number of risk factors as outlined below:

- Procedures performed to address the risk profile of the Pension Fund: £24,316
- Additional work to address increase in Regulatory standards: £19,472
- Client readiness and IT support for Data Analytics: £1,256

Fees (Continued)

Note 2: In 2019/20, we had to perform additional procedures to address the risks resulting from Covid-19. The fee in relation to this is subject to formal approval by PSAA Ltd.




We cannot quantify the impact of any work resulting as a response to Covid-19 risks in 2020/21 at this point. We will provide an update on the additional fee implications at the conclusion of the audit.

Note 3: We anticipate charging an additional fee of £8,000 in 2020/21 to take into account the additional work required to respond to IAS19 assurance requests from admitted bodies and their auditors. For 2019/20 we were also required to perform additional procedures over the 2019 triennial valuation on the Pension Fund on behalf of Admitted body 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.	Audit Plan (Provisional) - 10 June 2021 - Audit and Accounts Committee
Significant findings from the audit	<ul style="list-style-type: none"> ▶ 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 - September 2021 - 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	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 - September 2021 - Audit and Accounts Committee	
Misstatements	<ul style="list-style-type: none"> ▶ 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 ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report - September 2021 - Audit and Accounts Committee	
Fraud	<ul style="list-style-type: none"> ▶ 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 ▶ A discussion of any other matters related to fraud 	Audit Results Report - September 2021 - Audit and Accounts Committee	
Related parties	<ul style="list-style-type: none"> ▶ 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 - September 2021 - 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
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 	<p>Audit Plan (Provisional) - 10 June 2021 - Audit and Accounts Committee</p> <p>Audit Results Report - September 2021 - Audit and Accounts Committee</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit Results Report - September 2021 - Audit and Accounts Committee</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ 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 	<p>Audit Results Report - September 2021 - Audit and Accounts Committee</p>
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	<p>Audit Results Report - September 2021 - Audit and Accounts Committee</p>

Appendix B

Required communications with the Audit and Accounts Committee (continued)

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - September 2021 - Audit and Accounts Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise.	Audit Results Report - September 2021 - Audit and Accounts Committee
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report - September 2021 - Audit and Accounts Committee
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Plan (Provisional) - 10 June 2021 - Audit and Accounts Committee Audit Results Report - September 2021 - Audit and Accounts Committee

Additional audit information

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 and reporting whether it is materially inconsistent with our understanding and the financial statements.
- ▶ Maintaining auditor independence.

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 locations at which we conduct audit procedures to support the opinion given on the financial statements; and
- ▶ 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.