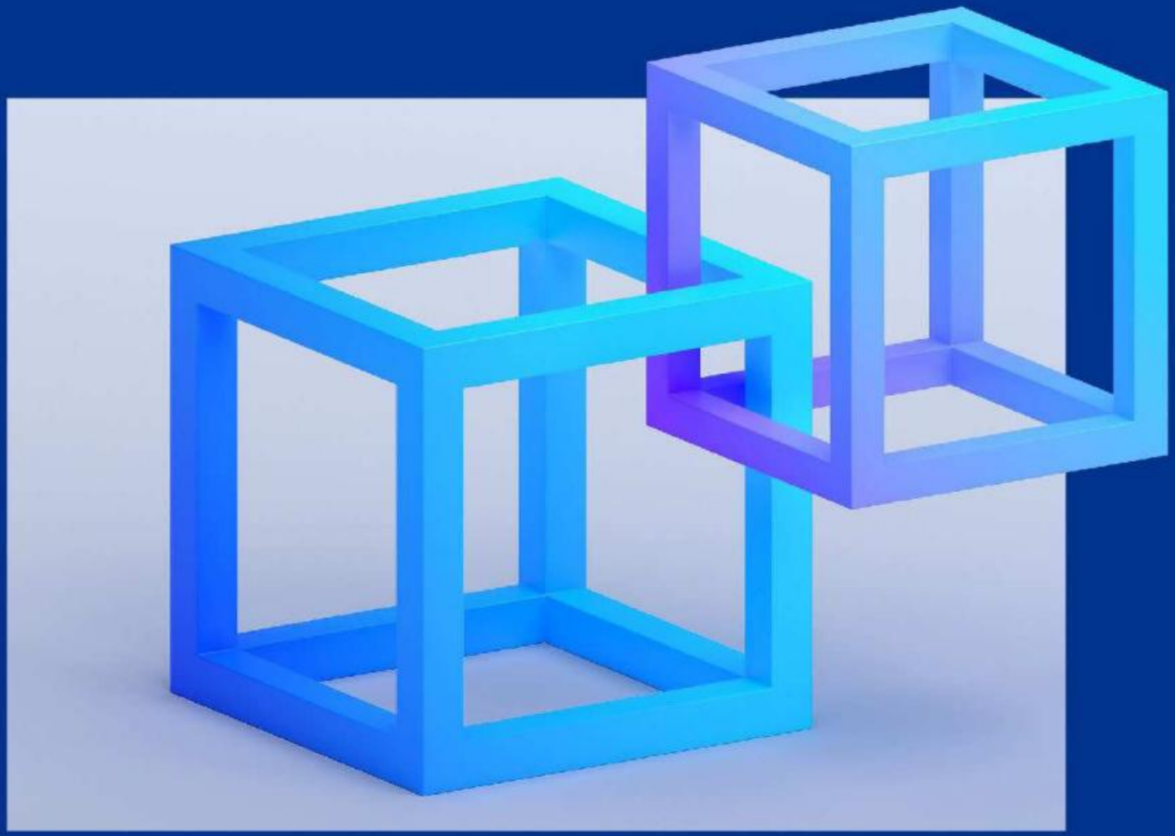
KPMG

Cambridgeshire Pension Fund



Draft Year End report to the Audit and Accounts Committee

Draft Year end report for the year ended 31 March 2024

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For presentation on 30 January 2025

Introduction

To the Audit and Accounts Committee of Cambridgeshire Pension Fund

We are pleased to have the opportunity to meet with you on 30 January 2025 to discuss the draft results of our audit of the financial statements of Cambridgeshire Pension Fund, as at and for the year ended 31 March 2024.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions.

This report should be read in conjunction with our audit plan and strategy report, presented on 30 July 2024.

We will be pleased to further elaborate on the matters covered in this report when we meet.

Contents	Page

Status of our Audit

Subject to the Administering Authority's approval, we expect to be in a position to conclude our audit, provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy, presented to the Audit and Accounts Committee on 30 July 2024.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

Sarah Brown

Partner, KPMG LLP

20 January 2024

How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

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

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

Important notice

This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract.

Circulation of this report is restricted.

The content of this report is based solely on the procedures necessary for our audit.

Purpose of this report

This Report has been prepared in connection with our audit of the financial statements of Cambridgeshire Pension Fund (the 'Fund'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2023/24, as at and for the year ended 31 March 2024.

This Report has been prepared for the Administering Authority's Audit and Accounts Committee, a sub-group of those charged with governance in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you by written communication on 30 July 2024.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Fund's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit

Our audit is not yet complete, and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 4 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit and Accounts Committee of the Pension Fund and the Administering Authority; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

Our audit findings

Significant audit risks	Page 5-7
Significant audit risks	**Our findings**
Management override of controls	At the time of writing this report, our testing in relation to management override of controls is not fully complete. However, our work to date has not identified any significant issues and we will provide a further update on our testing or any significant findings verbally at the committee meeting.
Valuation of Cambridge and Counties Bank	We have engaged our KPMG Corporate Finance team to assist in assessing the valuation of Cambridge and Counties Bank. We have communicated our final queries to management, and our work will be concluded upon receipt of management's response. We will provide a further update on our testing or any significant findings verbally at the committee meeting.

Key accounting estimates	Page 9-12
Valuation of Cambridge and Counties Bank	We have not yet concluded the assessment of the valuation estimate used for Cambridge and Counties Bank. We will provide an update verbally at the committee meeting.
Valuation of Level 3 Pooled Investment Vehicles	No issues to report. We attested the valuation of pooled fund investments to directly received confirmations. We assessed the reliability of these statements by performing a retrospective review of available audited financial statements.
Valuation of Level 1 & 2 Pooled Investment Vehicles and Segregated Investments	No issues to report. We verified valuations to independent pricing sources provided by our in-house pricing team. For any investment positions our pricing team were unable to obtain an independent price for, we performed retrospective review procedures as an alternative..

Expenditure recognition

Practice Note 10 states that the risk of material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition is required to be considered. Expenditure in a pension scheme equates to payments to members and management expenses. There are no subjective issues concerning when expenses need to be recognised. Amounts involved cannot easily be manipulated through accounting policies, timing or other policies. There is little incentive for the Fund to manipulate the financial reporting of expenses. Therefore, in the absence of specific fraud risk factors, there is no risk of fraudulent financial reporting arising from the manipulation of expenditure recognition for the Fund.

Number of Control deficiencies	Page 21
Other control deficiencies	2

Outstanding matters

Our audit is substantially complete except for the following outstanding matters:

- Resolution of follow up queries in respect of valuation of the Cambridge and Counties Bank;
- Journals testing and conclusion on opening balances (file review);
- Review of the updated draft financial statements;
- Assessment of going concern;
- Completion of internal review and quality control procedures;
- Implementation and review of the backstop measures;
- Completion of our post balance sheet events review up to the date of sign off; and
- Receipt of signed letter of representation and and signed financial statements.

Significant risks and other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of Cambridgeshire Pension Fund, the industry and the wider economic environment in which the Pension Fund operates.

We also use our regular meetings with senior management to update our understanding and take input from component audit teams and internal audit reports.

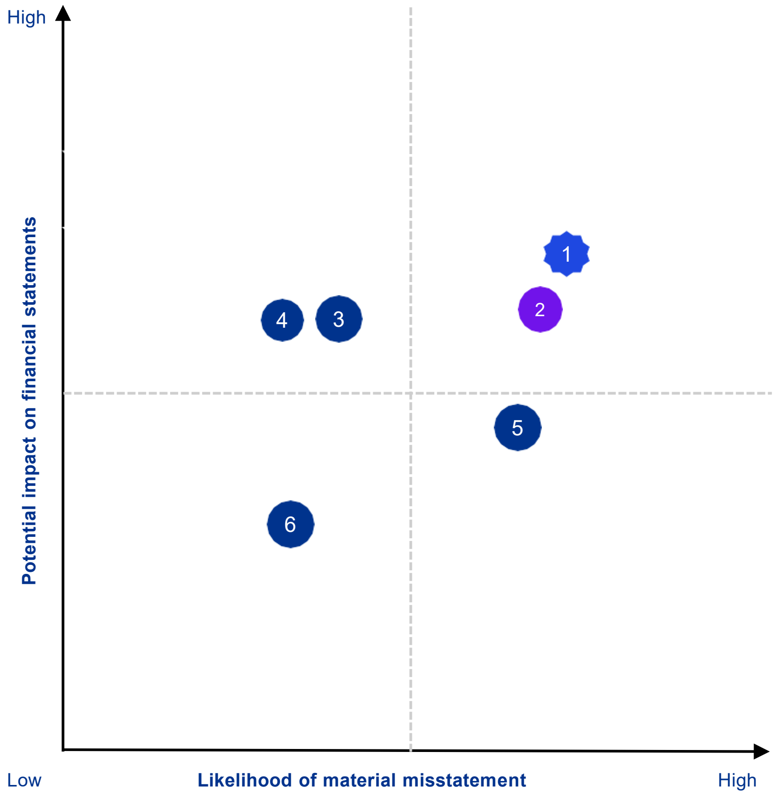
In the Audit Plan we stated, that due to the levels of economic uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. We further stated that we would amend our audit approach accordingly and communicate this to the Audit and Accounts Committee. We note we have not identified any such matters.

Significant risks

1	Management override of controls
2	An inappropriate amount is estimated for the value of Cambridge and Counties Bank

Other audit risks

3	Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded
4	Valuation of Level 1, 2 and Level 3 investments is misstated
5	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
6	The actuarial position of the Fund is not appropriately presented in the financial statements.



KEY

- Presumed significant risk
- Significant financial statement audit risks
- Other audit risks

Audit risks and our audit approach

1 Management override of controls[a]

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

Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant. Our audit methodology incorporates the risk of management override as a default significant risk.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- As part of our planning risk assessment procedures we identified that the Fund does not have enforced segregation of duty controls over the posting of journals. We will therefore not seek to take a controls based approach when designing procedures to provide assurance over this risk.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Our response

As part of our audit procedures, we have:

- In line with our methodology, evaluated the design and implementation of controls over journal entries and post-closing adjustments;
- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias;
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the normal course of business, or are otherwise unusual. Our procedures did not identify any significant unusual transactions;
- Evaluated the selection and application of accounting policies;
- Evaluated the completeness of the population of journal entries and analysed all journals through the year with a primary focus on testing those entries identified as having a higher risk.
- During our inspection, we identified a total of 10 journal entries and adjustments that met our criteria for high risk. This included journals associated with unusual user activity. Upon thorough examination of these entries, we did not find any evidence of unauthorized, unsupported, or inappropriate transactions.
- We evaluated the accounting estimates in respect of the valuation of investments, and did not identify any indicators of management bias. Please see slides 9 to 12 for further discussion.
- Testing of post closing journals remains outstanding.

Audit risks and our audit approach

2 An inappropriate amount is estimated for the value of Cambridge and Counties Bank

Significant audit risk

- An inappropriate amount is estimated for the value of Cambridge and Counties Bank due to inappropriate assumptions, errors in the underlying data or inaccurate computation of the valuation estimate.
- The risks of material misstatement relating to fair values of Cambridge and Counties Bank, have increased due to the higher degree of estimation uncertainty resulting from current economic conditions.

Planned response

- Cambridgeshire Pension Fund appoints a third-party specialist (Grant Thornton) to value the Cambridge and Counties Bank investment. We obtained the valuation reports produced by the third-party specialist as at 31 March 2024.
- We assessed Grant Thornton as a management specialist and assessed their competency as as valuation expert and their work for use as audit evidence.
- We ensured that the CCB investment has been valued in accordance with the relevant accounting policies;
- We engaged with the KPMG Corporate Finance team who have undertaken a review of the valuation model provided by GT considering the appropriateness of the assumptions and inputs used in determining the valuation;
- The KPMG Corporate Finance team have challenged the valuer on the valuation inputs, including the historical performance along with assessing the dividend discount model used for the valuation. The KPMG specialist team is yet to conclude on the valuation of Cambridge and Counties Bank.
- The audit team have tested the accounting entries made in the Statement of Accounts to ensure they are consistent with the valuation provided by management's expert.
- Under the International Standards of Auditing, we are required to identify and evaluate the design and implementation of an internal control in relation to significant risks. Whilst the Trustee appoints a third party (Grant Thornton) to value the Cambridge and Counties Bank investment, we did not identify an associated management review or other control that that meets the requirements of the auditing standards. Please refer to Appendix "Control Deficiencies' on page 21 for further details.

Please see page 10 for our findings.

Audit risks and our audit approach

3 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded

Other audit risk

- Level 1, 2 and Level 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Cambridgeshire Pension Fund. They are held with 21 investment managers across a number of asset classes. The investments are material to the financial statements and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to completeness, existence and accuracy as there has been a number of investment transitions in the year between investment managers.

Our response

- As part of our audit procedures, we gained an understanding of the processes over the completeness, existence and accuracy of Level 1, 2 and 3 investments. This included gaining an understanding of the control environment in operation across the investment managers and Northern Trust (custodian) by reviewing their internal controls reports (where available) to identify any control deficiencies that would impact our audit approach.
- We obtained direct confirmations from your custodian and investment managers to vouch the holdings and test the accuracy of amount recorded as investments in the financial statements at the year end.
- We vouched purchases and sales to investment manager and/or custodian reports.
- We recalculated the change in market value and compared this to the overall investment return stated in the financial statements. We investigated any material deviations.

There are no matters arising from our work over this risk area. See pages 11 and 12 for our findings for further details over valuations for each asset class.

Audit risks and our audit approach

4 Valuation of Level 1, Level 2 and other Level 3 investments is misstated

Other audit risk

- Investments are held to pay benefits of the Fund. They are largely held as pooled investment vehicles held with around 21 investment managers. The investments are material to the financial statements (99% of the Statement of Net Assets) and therefore there is a risk of material misstatement.
- There is a risk of material misstatement relating to fair values of level 1 and 2 pooled investments and segregated assets, due to the estimation uncertainty resulting from the pricing of these investments.
- There is an elevated risk of material misstatement relating to fair values of level 3 pooled investments, due to the estimation uncertainty resulting from unobservable inputs to these investments.

Our response

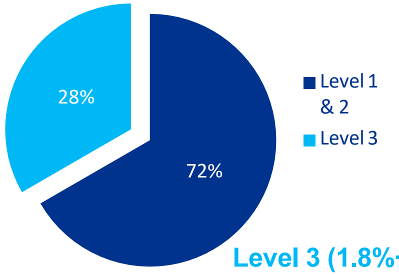
Our approach in relation to valuation for different types of investments is as follows:

- **Segregated financial instruments** Our in-house investment valuation team, iRadar, was engaged to independently revalue segregated securities and over the counter (OTC) derivatives and identify stale price issues of directly held financial instruments within the investment portfolio as well as any exposures to hard to value assets.
- **Level 1 & 2 Pooled Investment Vehicles**: We recalculated the value of the Level 1 and 2 pooled investments using published pricing of the pooled investment vehicles at the year end (where available).
- **Level 3 Pooled Investment Vehicles:** For each Level 3 pooled investment vehicle investment, we obtained the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouched the valuation to this. We further assessed the reliability of the NAV statement for a sample of Level 3 pooled investment vehicles by:
  - Obtaining and inspecting the latest audited financial statements for the underlying funds where available;
  - Inspecting the audit report to confirm that it is unqualified and that the audit has been carried out by a reputable audit firm; and
  - Comparing the unaudited pricing information at the year end to the audited financial statements valuation. Where the audited financial statements are not as at the Fund year end date, we agreed them to unaudited pricing information at that date and reconcile significant movements to the Fund year end date agreeing movements to quarterly NAV/transaction statements.

See pages 10 to 12 for our findings.

Audit risks and our audit approach

Level 3 Investments



Level 3 (1.8%+26.2%)

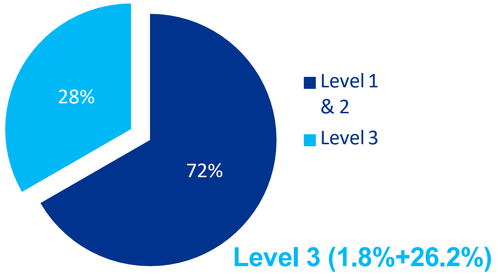
Type of security	Market value 2024 (£m)	Percentage of portfolio 2024 (%)	Market value 2023 (£m)	Percentage of portfolio 2023 %
Inputs are unobservable (i.e. market data is unavailable)				
Cambridge and Counties Bank (CCB)	84	1.8%	69	1.7%
Total	84	1.8%	69	1.7%

Our findings

Type of security	Our findings	Assessment of accounting estimate
Cambridge and Counties Bank	• We have assessed the competency of Grant Thornton as a management specialist. • We have engaged KPMG Corporate finance valuation specialists to review the assumptions underlying the CCB valuation. • Draft financial statements had a value of £69m for CCB. However, management have made an adjustment of £15.1m in the updated financial statements for CCB to reflect the final valuation received from Grant Thornton in Dec 2024. As this is a difference between the first and the current draft financial statements, we have recorded it as an adjusted audit difference on page 20. • GT utilised a market-based multiples valuation approach as their primary methodology and a Dividend Discount Model (DDM) as a secondary approach. • **Market-based multiples** – GT have used the market approach, specifically a Price/Earnings (P/E) ratio and Price/Book (P/B) ratio and taken an average of both methods to provide a current indication of value for CCB. Using an average of the results for both the P/E multiple approach and the P/B multiple approach, GT consider the indicative equity value of CCB, before adjustments, to be in the range of £139.3 million to £154.0 million. GT have deducted the Convertible Loan Notes of £22.9 million (22.9 million notes held at par) to derive at an indicative equity valuation range for CCB of £116.4 million to £131.1 million before assessing CCC's 50% ownership interest in the ordinary shares of CCB. This gave rise to a valuation range of £81.1 million to £88.5 million for the Cambridgeshire Pension Fund share. • **Dividend Discount Model (DDM)** - Based on a cost of equity range of 10.2% to 11.2% (midpoint 10.7%) and a terminal growth rate range of 1.5% to 2.5% (midpoint 2.0%), the management expert estimate an indicative equity value cross-check to be in the range of £132.6 million to £163.1 million (midpoint £146.1 million), supporting the range calculated utilising the primary approach. Based on a cost of equity range of 10.2% to 11.2% (midpoint 10.7%) and a dividend payout range of 29.7% to 39.7% (midpoint 34.7%), the management expert estimate an indicative equity value cross-check to be in the range of £125.1 million to £167.2 million (midpoint £146.1 million), supporting the range calculated utilising the primary approach. • Our valuation team assessed the reasonableness of the valuation methodology applied by GT and the appropriateness of the multiples used. We have communicated our final queries to management and our work will be concluded upon receipt of management's response. We will provide a further update on our testing or any significant findings verbally at the Committee meeting.	TBC

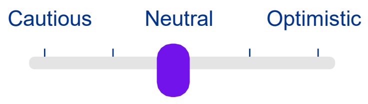
Audit risks and our audit approach

Level 3 Investments



Type of security	Market value 2024 (£m)	Percentage of portfolio 2024%	Market value 2023 (£m)	Percentage of portfolio 2023 %
Inputs are unobservable (i.e. market data is unavailable)				
Pooled Investment Vehicles	1,238	26.2%	1,077	25.3%
Total	1,238	26.2%	1,077	25.3%

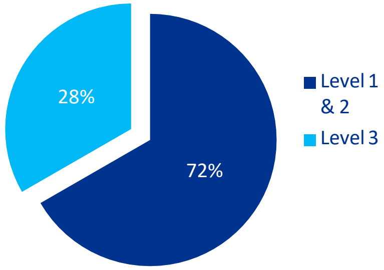
Our findings

Type of security	Our findings	Assessment of accounting Estimate
Pooled investment vehicles	• The availability of information means that the draft financial statements are prepared on the basis of valuations as at 31 December 2023, adjusted for known cash movements between 1 January 2024 and 31 March 2024. Our audit procedures involved obtaining valuations as at 31 March 2024. • We have identified a **difference** of £13.32m between the values in the draft financial statements and those provided by the investment managers as at 31 March 2024. Management agreed to adjust the financial statements for £11.8m whereas remaining £1.54m is less than our Audit Misstatement Posting Threshold (AMPT). See page 20 for further details. • We have not identified any indicators of bias relating to judgements and decisions in making accounting estimates related to valuation of level 3 investments.	

Key:
Current year

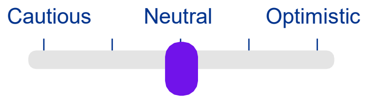
Audit risks and our audit approach

Level 1 & 2 Investments



Type of security	Market value 2024 (£m)	Percentage of portfolio 2024 %	Market value 2023 (£m)	Percentage of portfolio 2023 %
Inputs are unobservable (i.e. market data is unavailable)				
Pooled investment vehicles & Segregated investments	3,351	72%	3,305	72%
Total	3,351	72%	3,305	72%

Our findings

Type of security	Our findings	Assessment of accounting Estimate
Pooled investment vehicles & Segregated investment	• We obtained direct confirmations from your custodian and investment managers and vouched the holdings and valuation of assets at the year end. We verified the pricing of all of the level 2 pooled investment vehicles at the year end to an external pricing source. There are no matters arising from this testing. We have agreed investment cash balances to confirmations received directly from the bank and custodian/investment manager. • Our in-house investment valuation team, iRadar, has tested the fair values of segregated financial instruments, and level 1 & 2 pooled investment vehicles, and do not note any deviation outside our acceptable range. We found the valuation of these investments appropriate. • We have not noted any changes in method and underlying assumptions used to prepare accounting estimates related to valuation of level 1 and level 2 investments. Also, we have not identified any indicators of bias relating to judgements and decisions in making accounting estimates related to valuation of level 1 and level 2 investments.	

Key:
Current year

Audit risks and our audit approach

5 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

Other audit risk

- Contributions into the Pension Fund are not completely identified and recorded, do not exist or are not in compliance with the Regulations and the Rates and Adjustments Schedule.
- Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Revenue in a pension fund equates to contributions income. This revenue is recognized based on specific instructions as set out in the appropriate schedule(s). There are no subjective issues concerning when contributions need to be recognized. Amounts involved cannot easily be manipulated through accounting policies, issue of credit notes, timing or other policies. There is little incentive for the Pension Fund's management to manipulate the financial reporting of contributions. Therefore, in the absence of specific fraud risk factors, the presumption that fraudulent revenue recognition is a significant risk is rebutted for pension fund audits.

Our response

As part of our audit procedures, we gained an understanding of the processes over the contribution payment arrangements between the admitted and scheduled bodies and administering authority, and also the effectiveness of the Pension Fund's contribution monitoring arrangements.

As part of risk assessment procedures, we carried out re-performance checks for members on normal employee and employer contributions by reference to their pensionable salary and rates.

Our audit procedures over contributions included:

- Inspecting that deficit funding contributions are received into the Pension Fund in accordance with the rates and adjustments schedule;
- For a sample of admitted bodies we inspected whether contributions are received into the Pension Fund on a timely basis under the requirements through vouching contributions received to bank statements;
- Developed an expectation of the normal employer and employee contributions receivable in the year reflecting changes in active members in the year, increases in pensionable salary and any changes in the contributions rates in the year and compared these to actual employer and employee contributions received in the year.

Our Findings

There are no matters arising from our work in this area.

Audit risks and our audit approach

6 The actuarial position of the Fund is not appropriately presented in the financial statements

Other audit risk

- The actuarial position of the scheme is not appropriately presented in the financial statements.
- The actuarial position is not recognised on the Statement of Net Assets but is disclosed in the Notes.
- The value of the liability is an estimate involving the selection of appropriate actuarial assumptions, most notably the discount rate applied to the fund's liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective.

Our response

We performed the following procedures:

- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Tested the data provided to the accounting actuary to use within the calculation of the scheme valuation; and
- With the support of our own actuarial specialists, assessed whether the assumptions are compliant with the stated approach and reasonable under the flexibility provided by CIPFA and evaluated the calculation of the liability for compliance with the requirements of IAS26 and the approach outlined in the disclosure note; and carry out a high-level assessment of the calculated figure on a roll forward basis.

Our Findings

We are satisfied the methodology is appropriate and that assumptions are balanced and consistent with the CIPFA Code. We are satisfied that the actuarial position is fairly presented in the notes to the financial statements.

Other matters

Annual report

The Pension Fund annual report will be issued later than the financial statements. We will consider whether there is a material inconsistency between this information included in the annual report and the financial statements, or with our knowledge obtained in the audit; or whether this information appears to be materially misstated.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

We have not completed any non-audit work for the Fund during the year.

Audit Fees

Our PSAA proscribed 2023/24 audit scale fee for the audit was **£87k**.

The scale fees agreed with the PSAA do not take into account the impact of ISA315 (Revised). Our proposed fee for ISA315 is **£4.3k**.

To date we have received 6 letters from other audit firms requesting that we undertake a programme of work on their behalf in respect of post retirement benefit obligations at the Fund's admitted and scheduled bodies. Fee proposed for provision of IAS 19 assurances to auditors of relevant authorities under the Act and in accordance with the protocol is **£48k** plus VAT**.**

Also, we proposed an additional fee of **£7.3k** for additional work performed on opening balances and follow up queries on Cambridge and Counties Bank (CCB) valuation.

Quality and timeliness of information prepared by management/those charged with governance

In our view, the quality of information:

- supported our ability to understand key decisions better and obtain sufficient audit evidence
- enabled informed challenge of management decisions
- supported audit quality and better disclosure.

The impact on our audit opinion of the above issues was that we expect to report an unmodified opinion for pension fund accounts.

Opening Balance Procedures

As at the date of this report, we are yet to conclude on the opening balances work as we are not able to review the file of the predecessor auditor. We will provides any further updates verbally in the meeting.

Appendices

Required communications

Type	Response
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2024.
Adjusted audit differences	There were adjusted audit differences with an impact on net assets of £26.8 million.
Unadjusted audit differences	There are no unadjusted audit differences.
Related parties	We have noted one deficiency in the internal controls regarding authorising and approving transactions with related parties. See page 22.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We communicated to management all deficiencies in internal control over financial reporting during the audit and these are included in this report as well – please see page 21 - 22.
Issue a report in the public interest	We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving Fund management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Make a referral to the regulator	We have not identified any such matters.

Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	We do not anticipate to issue a modified opinion for Cambridgeshire Pension Fund
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	Our review of the other information in the annual report, Strategic and Directors' reports is on-going.
Breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate and the firm have complied with relevant ethical requirements regarding independence.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Fund's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	No such matters have arisen during the audit.
Certify the audit as complete	Our current understanding is that the prior year audit has not been certified as complete. We will only be able to certify the audit as closed once we have completed our work and the prior year audit is certified as complete.

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

To the Audit & Accounts Committee members

Assessment of our objectivity and independence as auditor of Cambridgeshire Pension Fund

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

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

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity except for those detailed below where additional safeguards are in place.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

No non-audit services have been provided to the Pension Fund during the year ended 31 March 2024 and we have not committed to providing any such services.

We have considered the fees charged by us to the Pension Fund and its affiliates for professional services provided by us during the reporting period.

Confirmation of Independence (cont.)

Summary of fees

We have considered the fees charged by us to the Fund for professional services provided by us during the reporting period.

Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.0:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	2023/24
	£'000
Statutory audit: Scale fees	87
Statutory audit: ISA 315R	4.3
Other Assurance Services (IAS19 assurance letters)	48
Additional fee for opening balances confirmation and valuation of CCB	7.3
Total Fees	146.6

Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Accounts Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Cambridgeshire County Council and Cambridgeshire Pension Fund and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Corrected and Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Accounts Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements.

We have identified a discrepancy of £13.3m million between the values in the draft financial statements and those provided by the investment managers for level 3 PIV as of 31 March 2024. Additionally, a £15.1m million adjustment has been made in the valuation of Cambridge and Counties Bank. Management has agreed to adjust the financial statements by £26.8 million (£11.8 million in level 3 PIV plus £15 million in Cambridge and Counties Bank), and remining £1.54 million is less than our AMPT.

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit.

Audit misstatements	Type	Account	Fund Account £	Statement of Net Assets £	Details
Corrected misstatements					
Investment manager valuation statements (Level 3 PIV)	Factual	Dr Investments Cr Change in market value	 11,774,000	11,774,000	Change in value arising from a timing difference between the Fund's reporting date and the date of investment manager accounts.
Investment manager valuation statements Cambridge and Counties Bank CCB	Factual	Dr Investments Cr Change in market value	 15,100,000	15,100,000	Change in value arising from final valuation received from Grant Thornton in Dec 2024
Adjustment to Financial Statements			**(26,874,000)**	**26,874,000**	

Types of misstatement

Factual: Misstatements about which there is no doubt

Projected: Our best estimate of misstatements in the audited populations

Judgemental: Differences arising from judgments of management that we consider unreasonable or inappropriate

Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
1	**Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	**Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	**Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	2	**Review of Cambridge and Counties Bank valuation** Under the International Standards of Auditing, we are required to identify and evaluate the design and implementation of an internal control in relation to significant risks. Whilst the pension fund appoints a third party (Grant Thornton) to value Cambridge and Counties Bank, we did not identify an associated management review or other control that meets the requirements of the auditing standards. We suggest that the Fund considers establishing a procedure for a periodic review of the valuation methodologies and assumptions used by the valuer. The aim would be to ensure that the valuations are reasonable and consistent with industry standards. It is important that this review process and any consultations with independent experts are thoroughly documented. This documentation should include the rationale for any adjustments or confirmations of the consistency valuations provided with the Fund’s own knowledge and understanding.	We will work with auditor to better understand the control weakness here and look to increase assurance over what already exists.

Control Deficiencies (Cont'd)

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
2	2	**Authorising and approving transactions with related parties.** Through our inspection of the design and implementation of the controls associated with the related parties process, we identified that there is no formal process in place to inspect the register of interests before entering into transactions with third parties. This increases the risk that the Fund transacts with third parties that are considered to be related parties without appropriate approval or oversight. We recommend that management implement a process whereby the register of interests is reviewed and considered before entering into transactions with third parties on a regular basis.	We will work with auditor to better understand the control weakness here and look to increase assurance over what already exists.

ISA (UK) 240 Revised: changes embedded in our practices

Ongoing impact of the revisions to ISA (UK) 240

- ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* included revisions introduced to clarify the auditor's obligations with respect to fraud and enhance the quality of audit work performed in this area. These changes are embedded into our practices, and we will continue to maintain an increased focus on applying professional scepticism in our audit approach and to plan and perform the audit in a manner that is not biased towards obtaining evidence that may be corroborative, or towards excluding evidence that may be contradictory.
- We will communicate, unless prohibited by law or regulation, with those charged with governance any matters related to fraud that are, in our judgment, relevant to their responsibilities. In doing so, we will consider the matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud.

Matters related to fraud that are, in our judgement, relevant to the responsibilities of Those Charged with Governance

Our assessment of the risks of material misstatement due to fraud may be found on page 6. We also considered the following matters required by ISA (UK) 240 (revised May 2021, effective for periods commencing on or after 15 December 2021) *The auditor's responsibilities relating to fraud in an audit of financial statements* , to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud:

- Concerns about the nature, extent and frequency of management's assessments of the controls in place to prevent and detect fraud and of the risk that the financial statements may be misstated.
- A failure by management to address appropriately the identified significant deficiencies in internal control, or to respond appropriately to an identified fraud.
- Our evaluation of the entity's control environment, including questions regarding the competence and integrity of management.
- Actions by management that may be indicative of fraudulent financial reporting, such as management's selection and application of accounting policies that may be indicative of management's effort to manage earnings in order to deceive financial statement users by influencing their perceptions as to the entity's performance and profitability.
- Concerns about the adequacy and completeness of the authorization of transactions that appear to be outside the normal course of business.

Based on our assessment, we have no matters to report to Those Charged with Governance.

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every engagement lead and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework. Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight Committee, and accountability is reinforced through the complete chain of command in all our teams.

Commitment to continuous improvement

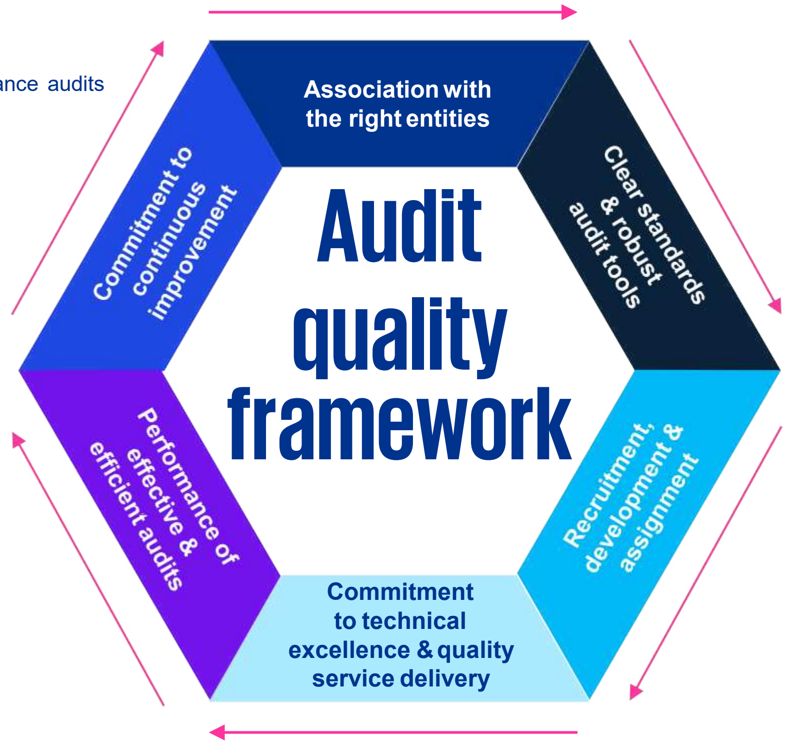
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members

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