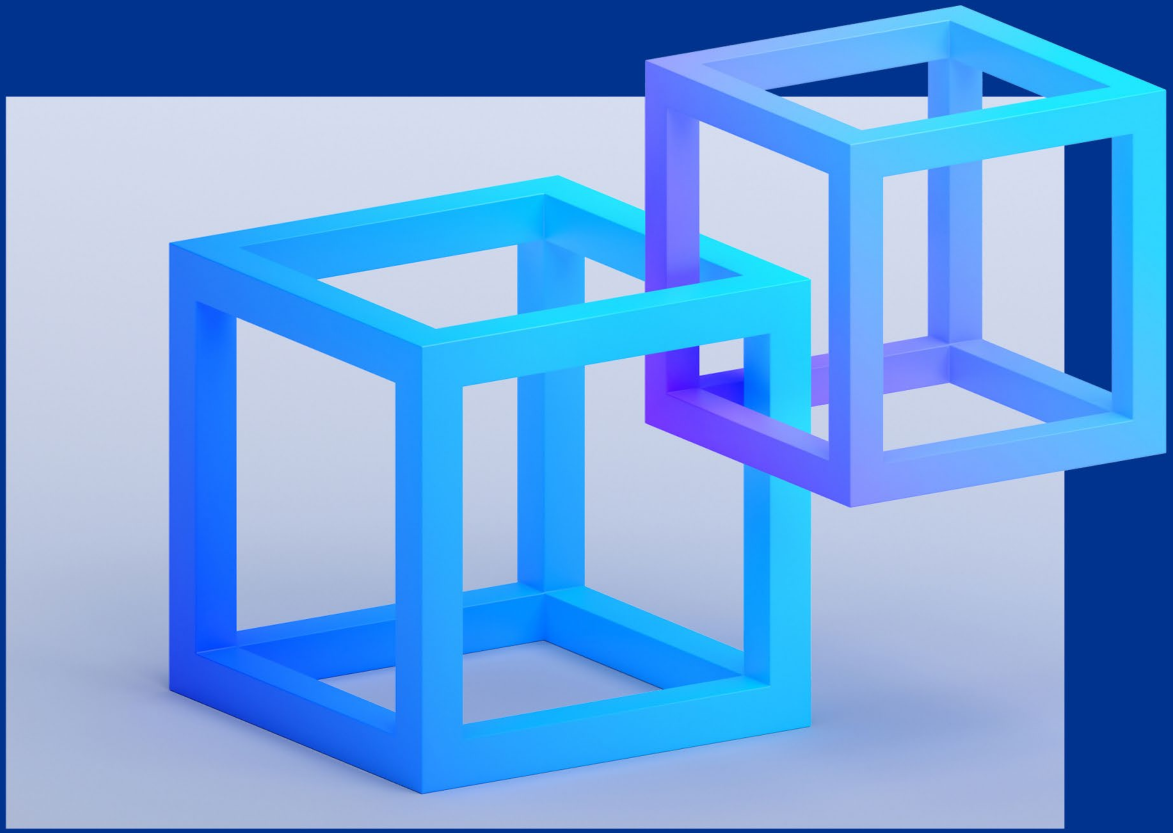
London Borough of Southwark Pension Fund



Year End Report to Audit, Governance & Standards Committee

Report for the year ended 31 March 2024

Contents

KEY CONTACTS

Fleur Nieboer

Partner

fleur.nieboer@kpmg.co.uk

Kunal Malhotra

Manager

Kunal.malhotra1@kpmg.co.uk

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Introduction

To the Audit, Governance & Standards Committee of London Borough of Southwark Pension Fund

We are pleased to have the opportunity to share this report with you on 3 February 2025 and to discuss the results of our audit of the financial statements of London Borough of Southwark 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 5 September 2024.

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

Status of our Audit

Subject to the Administering Authority's approval, we expect to issue an unmodified Auditor's Report.

There have been no significant changes to our audit plan and strategy.

We draw your attention to the important notice on page 4 of this report, which explains:

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

Yours sincerely,

Fleur Nieboer

Partner KPMG LLP

10 February 2025

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 London Borough of Southwark 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, Governance and Standard 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.

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 now complete.

Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit, Governance and Standard Committee of 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 07 - 09
Significant audit risks	**Our findings**
Management override of controls	No issues identified
Valuation of directly held property	We have utilised KPMG Real Estate experts as part of our work in this area. The overall valuation is considered as balance.

Key accounting estimates	Page 09 - 12
Valuation of directly held property	We assessed the assumptions underpinning the valuation as balance.
Valuation of level 3 pooled investment vehicles	We agreed the value to investment manager confirmations and assessed the NAV statements as reliable.
Valuation of level 1 and 2 pooled investment vehicles and segregated investments	We verified the pricing at the year end to an independent pricing source (where available). For ULIPs, we verified from fund manager the willingness to transacts at the price obtained.

Uncorrected Audit Misstatements		Page 18
Understatement/ (overstatement)	**£m**	**%**
Net assets	nil	nil

Number of Control deficiencies	Page 20 - 22
Understatement/ (overstatement)	
Significant control deficiencies	1
Other control deficiencies	4

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.

Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our knowledge of the Fund, the industry and the wider economic environment in which the Fund operates.

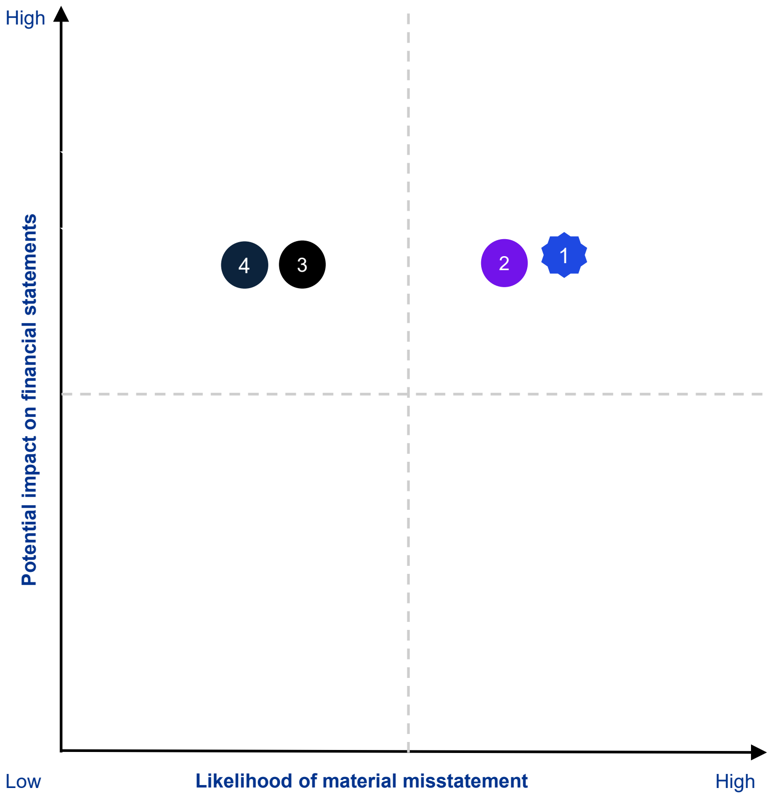
We also use our regular meetings with senior management to update our understanding.

Significant risks	
1.	Management override of controls
2	An inappropriate amount is estimated for the value of directly held property

Other audit risks :	
3.	Valuation of other Level 3 investments is misstated
4.	Valuation of Level 1 and 2 investments is misstated

We have split the risk related to valuation of investments between other level 3 and level 2 investments, mainly due to the different nature of these assets.

Fair values for level 3 assets would require at least one input whose valuation is based on unobservable market data whereas, level 2 assets are those instruments which are traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.



KEY

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

See the following slides for the cross-referenced risks identified on this slide.

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.
- 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.
- We have not identified any specific additional risks of management override relating to this audit.

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

Our response

Our audit methodology incorporates the risk of management override as a default significant risk. We have:

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- In line with our methodology, evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the entities normal course of business or are otherwise unusual.
- Analyse all journals through the year and focus our testing on those with a higher risk, such as material journals posted during the final close down period.

Audit risks and our audit approach (cont.)

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.
- 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.
- We have not identified any specific additional risks of management override relating to this audit.

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

Our findings

- We have not identified any indication of management override in the year leading to material misstatement or significant concern.
- We have reviewed the accounting records and did not identify any significant unusual transactions.
- We have also reviewed management estimates, and the journal entries posted in the period and around the year end. We did not identify any areas of bias in key judgements made by management.
- We performed the screening of journals listing and did not identify any high-risk criteria. Our screening procedures identified journal entries and our examination of these did not identify unauthorised, unsupported or inappropriate entries.
- Our testing over journals is complete.

Journal controls are now subject to enhanced scrutiny by auditors and must comply with a series of prescriptive criteria in order to be considered effective. We did not identify effectively designed and implemented controls over journal entries because management do not enforce journal entry authorisation within SAP. Whilst there are authorisation logs for journal entries, there was no mechanism to stop a fraudulent entry being posted without being recorded on the journal entry log.

See Appendix 5 for our recommendation and management's response.

Audit risks and our audit approach

2 Incorrect valuation of directly held property

Assessment of accounting estimate

Cautious | Neutral | Optimistic

Significant audit risk

An inappropriate amount is estimated for the value of property due to inappropriate assumptions, errors in the underlying data or inaccurate computation of the valuation estimate. The significant risk is driven by the market assumptions due to the subjectivity and complexity involved in their determination.

Our response

Our findings

- We obtained the property valuation produced by the independent valuer as at 31 March 2024 directly from Nuveen, fund manager who further engage an independent valuer, Knight Frank (the property valuer). We noted the proposed valuation recorded by management was understated by £1.39m.
- We assessed Knight Frank as a management specialist and assessed their competency as a property valuer and their work for use as an audit evidence.
- We involved KPMG property valuation specialists to evaluate the assumptions underlying the properties' valuations for a selection of the directly held property portfolio, holding direct discussion with Knight Frank in respect of the underlying assumptions used for the valuation.
- The KPMG Real Estate team have challenged the valuer on the valuation inputs and reasons for value movement, considered any comparable evidence provided by the valuer and referred to our own internal sources of comparable data, market research, benchmark yields and MSCI data throughout our review. The KPMG Real Estate team evaluated a risk-based sample of properties and concluded that the valuations were balanced.
- 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 fund manager appoints a third party (Knight Frank) to value the property, we did not identify an associated management review or other control that that meets the requirements of the auditing standards.

Audit risks and our audit approach

3 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 held as pooled investments and cash with 18 investment managers. The investments are material to the financial statements (more than 95% 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 a 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

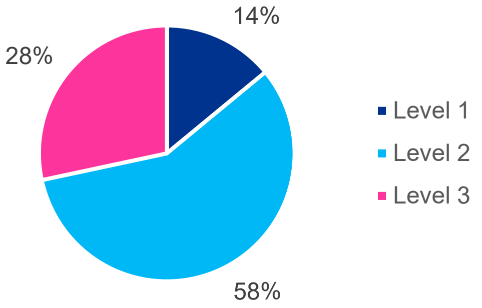
Our approach in relation to valuation for different types of investments is as follows:

- **Segregated financial instruments:** Our in-house investment valuation team, iRADAR, was engaged to independently revalue segregated securities and over the counter (OTC) derivative prices 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). For ULIPs, we verified from fund manager the willingness to transacts at the price obtained.
- **Level 3 Pooled Investment Vehicles:** For each Level 3 pooled investment vehicle investment manager, 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 all Level 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

See following pages for our findings.

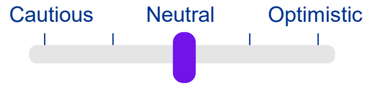
Audit risks and our audit approach (cont.)

Level 3 Investments



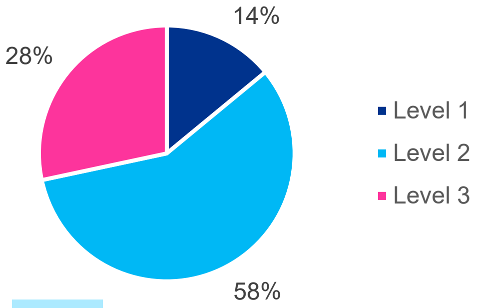
Type of security	Portfolio	Market value 2024 (£m)	Percentage of portfolio 2024 %	Market value 2023 (£m)	Percentage of portfolio 2023 %
Inputs are unobservable (i.e. market data is unavailable)					
Level 1: Segregated		313.56	14%	267.22	13%
Level 2: PIVs		1,287.61	58%	1,220.73	60%
Level 3: PIVs		404.41	18%	352.29	17%
Level 3: Property		218.77	10%	197.34	10%
Total		2,224.35	100%	2,037.59	100%

Our findings

Type of security	Our findings	Assessment of accounting estimate
Property	• Refer to page 9 for the commentary and findings in respect of property assets	
Level 3 Pooled Investment Vehicles	• We obtained direct confirmations from the custodian and all the investment managers to vouch the holdings and valuation of assets at the year end; • The draft financial statements are prepared on the basis of latest available valuations that are sometimes lagged due to delay in preparing the quarterly valuation statements by investment managers. Our audit procedures involved obtaining valuations as at 31 March 2024. We have identified an overstatement of £11.61m between the values in the draft financial statements and those provided by the investment managers as at 31 March 2024. This is relating to Blackstone (£10.36m) and M&G (£1.25m). This is not material to our financial statement's opinion. See Appendix 4 for details.	

Audit risks and our audit approach (cont.)

Level 2 Investments



Type of security	Portfolio	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)					
Level 1: Segregated		313.56	14%	267.22	13%
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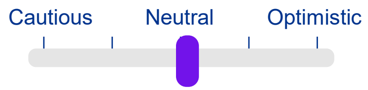
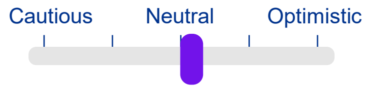
Level 3: PIVs		404.41	18%	352.29	17%
Level 3: Property		218.77	10%	197.34	10%
Total		2,224.35	100%	2,037.59	100%

Our findings

Type of security	Our findings	Assessment of accounting estimate
Segregated assets	Our in-house investment team, iRADAR, was used to verify the segregated securities and over the counter (OTC) derivative prices and identify stale price issues of directly held financial instruments within the investment portfolio as well as any exposures to hard to value assets. No issues were noted in these assets.	
Level 2 Pooled investment vehicles	We obtained direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end; We engaged our in-house investment team, iRADAR who verified the pricing of the pooled investment vehicles at the year end to an external pricing source (where available) and noted no issues in these assets. For ULIPs, we verified from fund manager the willingness to transacts at the price obtained and noted no issues.	

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 at the Fund during the year.

See page 22 for more details.

Audit Fees

Our PSAA proscribed 2023/24 audit scale fee for the audit was £75,000 plus VAT.

The scale fees agreed with the PSAA do not take into account the impact of ISA315 (Revised). We have agreed a fee variation of c5% of the fee plus VAT with you in respect of ISA351R.

Appendices

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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 3 adjusted audit differences with an impact on net assets of £11.40 million. See page 19.
Unadjusted audit differences	The aggregated impact on net assets of unadjusted audit differences would be £nil. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by 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 in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
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	If we identify that potential unlawful expenditure might be incurred then we are required to make a referral to your regulator. We have not identified any such matters.
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.

Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the statement of accounts.
Breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms 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 significant matters arising from the audit were discussed, or subject to correspondence, with management.
Certify the audit as complete	We are required to certify the audit as complete when we have fulfilled all of our responsibilities relating to the accounts and use of resources as well as those other matters highlighted above.

Fees

Audit fee

Our fees for the year ending 31 March 2024 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2023/24 (£)
Statutory audit	75,000
ISA315r	7,840
TOTAL	**82,840**

**Note: we are in a process of agreeing the ISA315r fee uplift.*

Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.
- As per PSAA's Scale Fees Consultation, the scale fees did not include new requirements of ISA315 revised (risk of material misstatement);

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 and Risk Committee members

Assessment of our objectivity and independence as auditor of London Borough of Southwark 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.

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 and Risk Committee of the Group 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.

Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Governance and Standard 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.

There are no uncorrected misstatements to report.

Corrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit, Governance and Standard Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit differences (£m)				
No.	**Detail**	**Fund Account Dr/(Cr)**	**Net Asset Statement Dr/(Cr)**	**Comments**
1	Dr Directly held Property Cr Change in market value	 (£1.39m)	£1.39m -	Due to mathematical inaccuracy performed by fund manager, the valuation of directly held property was misstated and wrongly recorded in the financial statements.
3	Dr Change in market value Cr Pooled Property (L3 pooled funds) Cr Private Equity (L3 pooled funds)	£11.61m	 (£1.25m) (£10.36m)	Latest available value for private equity and pooled property was taken at the time of preparing the financial statements. However, it was the lagged valuation. While performing the audit, KPMG was able to confirm the valuation as at 31 March 2024 by obtaining an independent confirmation from fund manager and noted variance between the management's valuation and latest NAV.
Total		£10.22m	(£10.22m)	

Disclosure differences	
Matter	**Comment**
Capital commitments disclosure	Capital Commitments due as at 31st March 2024 relating to the Temporis Impact Strategy V Fund have been understated by £6.09m.
Capital commitments disclosure	Capital Commitments due as at 31st March 2024 relating to the Frogmore FREP III Fund have been overstated by £6.43m. These were considered as recallable when recording the outstanding commitments.
Investment risk disclosure	Assets exposed to currency risk is understated by £7m within disclosure of nature and extent of risks arising from financial instruments.
Reconciliation of movements in investments	Purchase and Sales within notes for reconciliation of movements in investments have been overstated by £70m. This won't have any impact on the closing investment valuation.

Control Deficiencies

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

Priority rating for recommendations					
❶	**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.	❷	**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.	❸	**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	❶	**Approval of journals: Segregation of duties** The Pension Fund has a process where journal entries require authorisation prior to posting in SAP. Whilst none of the journal entries we selected for testing lacked authorisation, we note that the system – as configured – does not enforce authorisation meaning there is a risk that a journal could be posted without approval. We understand the limitations the Pension Fund has identified in the current system meaning they do not believe an approval workflow will be useful. The Pension Fund should consider introducing an approval workflow in its replacement finance system..	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
2	❷	**Management review of valuation of directly held property** 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 Audit, Governance and Standard Committee appoints a third-party fund manager, Nuveen to manage its property portfolio and who further in turn engage Knight Frank to value the property, we did not identify an associated management review or other control that meets the requirements of the auditing standards. We recommend that the Fund review and challenge the valuations provided by the valuer. This process should be fully documented.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Control Deficiencies

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

Priority rating for recommendations					
❶	**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
3	②	**Related parties** We noted that no formal process followed by pension fund to identify member reconciliation is performed noting membership changes in the year, reconciling movements and cross checking against the underlying payroll records. There is a risk that membership information may be incorrect. We therefore recommend that the Fund considers performing an annual membership reconciliation to ensure the completeness and accuracy of member records, which should be checked against the underlying payroll records for active and pensioner members at the year end or keep an audit trail and do a formal check when a report is run for the year end.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.
4	②	**Valuation of investments** We noted that no formal process followed by pension fund to update the investment valuations after preparing draft financial statements. There is a risk that investments are recorded at lagged valuations. We therefore recommend that the Fund considers obtaining the asset confirmations from fund managers again (at least after 6 months from the year end) for those assets which were recorded at lagged valuations within the first draft of financial statements.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

Control Deficiencies

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

Priority rating for recommendations					
❶	**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.	❷	**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.	❸	**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
5	❸	**Membership reconciliation** We noted that no formal member reconciliation is performed noting membership changes in the year, reconciling movements and cross checking against the underlying payroll records. There is a risk that membership information may be incorrect. We therefore recommend that the Fund considers performing an annual membership reconciliation to ensure the completeness and accuracy of member records, which should be checked against the underlying payroll records for active and pensioner members at the year end or keep an audit trail and do a formal check when a report is run for the year end.	All recommendations have been discussed with management and agreed in principle. Full responses are in the process of being developed along with timescales for implementation and will be reported to the Audit, Governance and Standards Committee in the summer of 2025.

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 5 and 7. 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

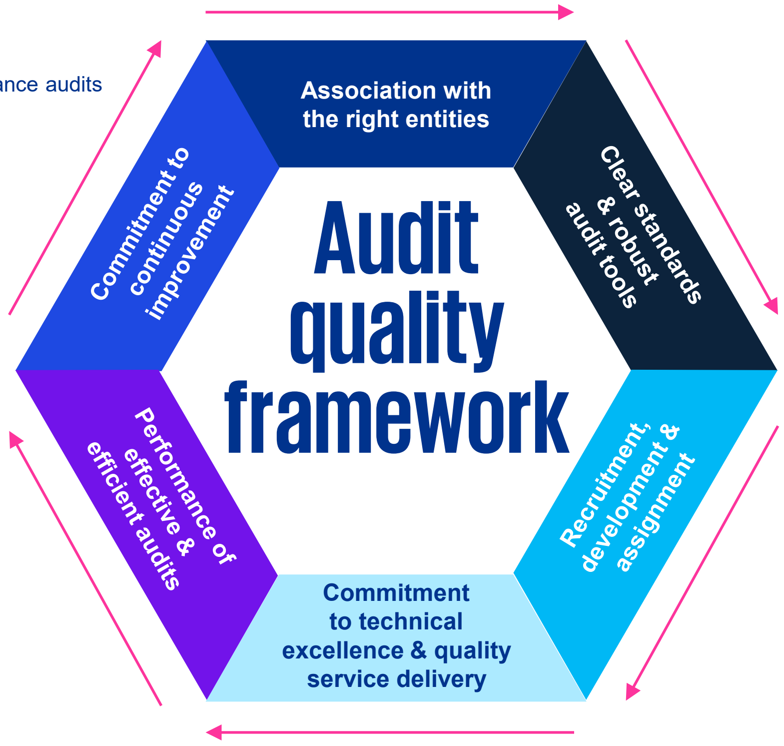
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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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