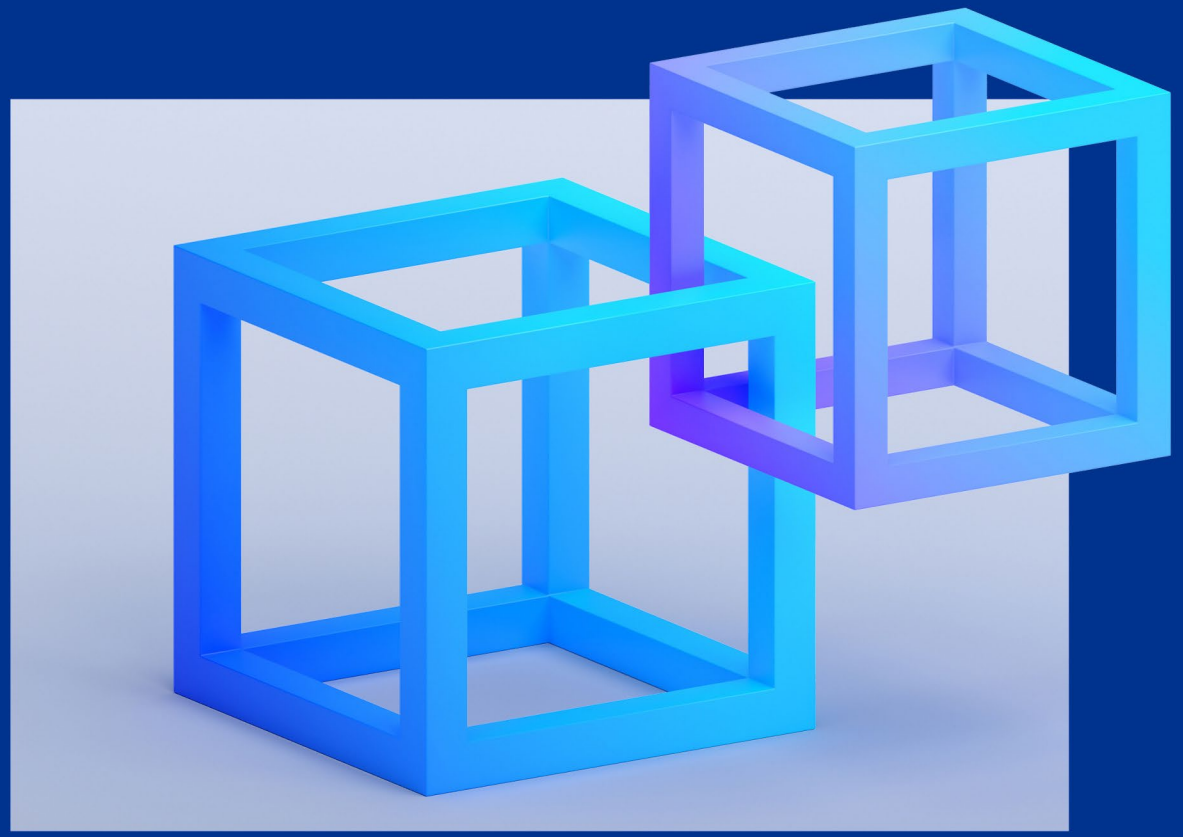
KPMG

Lincolnshire Pension Fund



Year End Report to the Pension Committee, Pensions Board and Audit Committee

Year end Report for the year ended 31 March 2025

27 January 2026

Introduction

To the Pension Committee, Pension Board and Audit Committee

We are pleased to have the opportunity to share the results of our audit of the financial statements of Lincolnshire Pension Fund (the Pension Fund") , as at and for the year ended 31 March 2025.

This report should be read in conjunction with our audit plan and strategy report, presented at an earlier meeting. We will be pleased to elaborate on the matters covered in this report.

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.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG s work, in the first instance you should contact Rashpal Khangura (Rashpal.Khangura@KPMG.co.uk), the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG s work under our contract with Public Sector Audit Appointments Limited, Tim Cutler. (tim.culter@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access KPMG s complaints process here: Complaints.

Subject to the approval of the statement of accounts, we expect to be in a position to sign our audit opinion on the approval of those statement of accounts and auditor s representation letter.

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

We expect to issue an unmodified Auditor s Report.

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,

Rashpal Khangura
27 January 2026

Contents **Page**

Important notice

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

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 Lincolnshire Pension Fund, prepared. in accordance with International Financial Reporting Standards (IFRSs) as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, as at and for the year ended 31 March 2025.

This Report has been prepared for the Lincolnshire County Council s Pension Fund Committee, Pension Board and the Audit Committee 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 in our audit plan and strategy.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Lincolnshire County Council 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 Pension Fund Committee of the Lincolnshire County Council; 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 6 - 7

Significant audit risks	Our findings
Management override of controls	We found no reportable misstatements or indicators of fraud in our testing. A control deficiency is noted with regards to segregation of duties to post and review – please see page 22.

Key accounting estimates	Page 8 - 12

Valuation of level 1 & 2 pooled investment vehicles and segregated investments	We do not note any deviations in valuation that were outside our acceptable range. We found the valuation of these investments appropriate.
Valuation of level 3 pooled investment vehicles	We found the valuation of these investments based on unaudited NAV as appropriate.
Actuarial valuation	We reviewed the actuarial valuation and found it appropriate.

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 Pension Fund.

Number of Control deficiencies	Page 22

Severity	Priority
Other control deficiencies	2

Outstanding matters

Our audit is now complete.

Significant risks and other audit risks

Our risk assessment draws upon our understanding of the applicable financial reporting framework, knowledge of the 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.

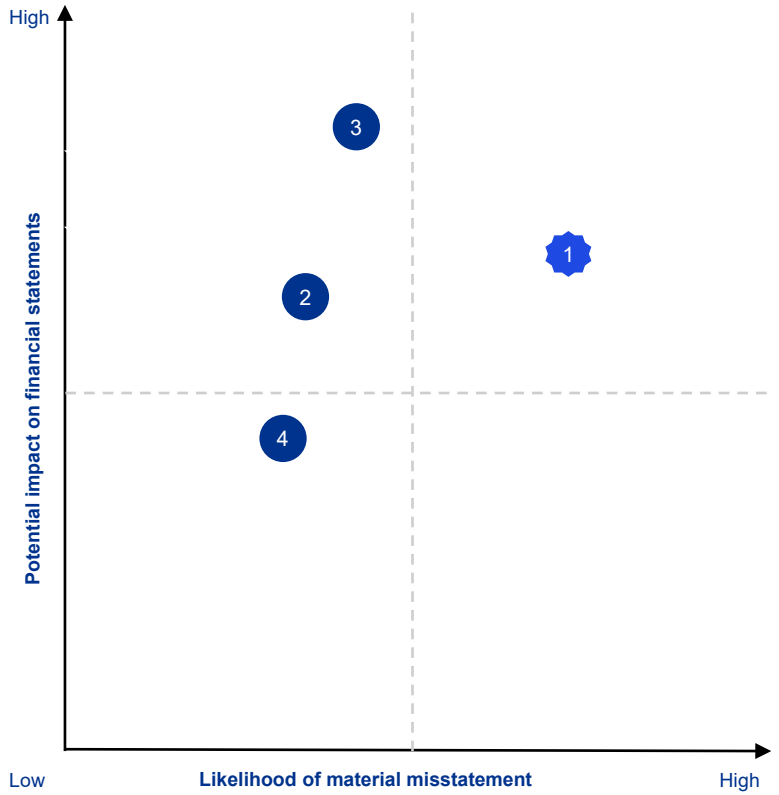
In the Audit Plan we stated, that due to the levels of economic uncertainty there is an increased likelihood of significant risks emerging throughout the audit cycle that are not identified (or in existence) at the time we planned our audit. We further stated that we would amend our audit approach accordingly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

Significant risks

1	Management override of controls

Other audit risks

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



KEY

1. Presumed significant risk
2. Other audit risks

Audit risks and our audit approach

1 Management override of controls[(a)]

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.
- As part of our planning risk assessment procedures we identified that the Pension 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

Planned response

- As part of our audit procedures we gained an understanding of the financial reporting process.
- Our audit methodology incorporates the risk of management override of controls as a default significant risk.
- In line with our methodology, we evaluated the design and implementation of controls over journal entries and post-closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- 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.
- Evaluated the selection and application of accounting policies.
- Analysed all journals through the year using data and analytics and focus our testing on those with a higher risk.
- With regards to the financial reporting and journals process, we performed the following over journal entries and other adjustments:
    - Evaluated the completeness of the population of journal entries.
    - We determined high risk criteria and selected journals based on this criteria for testing.

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

Audit risks and our audit approach (cont.)

1 Management override of controls[a] (cont.)

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.
- As part of our planning risk assessment procedures we identified that the Pension 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

Our findings

- We evaluated completeness of journal entries and did not note any issues.
- We evaluated the selection and application of accounting policies and did not note any issues.
- We found no reportable misstatements or indicators of fraud as a result of our high-risk journal testing. However, we have raised a control deficiency in respect of segregation of duties when posting manual journals directly to the ledger. We identified that management have implemented a compensating control to review any manual journals which impact fund account movements. For the purposes of our audit, we are unable to rely on this control as it is informal in nature.
- Our view of key estimates such as the valuation of L1, L2 and L3 investments is included on the relevant pages of this document.
- We did not identify any suspected or alleged incidents of management override and identified no matters that were of such significance to require reporting to the Audit Committee.

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

Audit risks and our audit approach (cont.)

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

Other audit risk

- Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Pension Fund. They are held with a number of investment managers across multiple asset classes. The investments are material to the financial statements (99.3% of the Statement of Net Assets) 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, due to rebalancing of the portfolio based on the Pension Committee's decision to align the portfolio with the Investment Strategy Statement.

Planned 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 includes gaining an understanding of the control environment at all the investment managers and Northern Trust (custodian) by reviewing their internal controls reports to identify any control deficiencies that would impact our audit approach (where available).
- 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 vouched purchases and sales to investment manager and/or custodian reports.
- We recalculated change in market value and compare this to the overall investment return stated in the Pension Committee's report for consistency with the amounts reported in the financial statements. We will investigate any material deviations.

Audit risks and our audit approach (cont.)

2 Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded (cont.)

Other audit risk

- Level 1, 2 and 3 investments are not complete, do not exist or are not accurately recorded.
- Investments are held to pay benefits of the Pension Fund. They are held with a number of investment managers across multiple asset classes. The investments are material to the financial statements (99.3% of the Statement of Net Assets) 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, due to rebalancing of the portfolio based on the Pension Committee's decision to align the portfolio with the Investment Strategy Statement.

Our findings

- Where available, we obtained the internal controls report of investment managers and Northern Trust and reviewed these reports to identify any control deficiencies that would impact our audit approach. No issues were identified that impact our planned audit response.
- We obtained direct confirmation from the investment managers and the custodian to vouch the holdings and valuation of assets at year-end. We note that the holdings and valuation as recorded by management are appropriate.
- We vouched the purchases and sales during the year to investment manager and custodian reports, and do not note any issues.
- We recalculated the change in market value and compared the overall investment return as stated in Pension's Committee's report. No issues were noted.

Audit risks and our audit approach (cont.)

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

Other audit risk

- The fair value of level 1, 2 and 3 investments is not measured appropriately.
- Investments are held to pay benefits of the Pension Fund. They are held with a number of investment managers across multiple asset classes. The investments are material to the financial statements (99.3% 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 segregated and pooled investments which amounted to £2.671bn as at 31 March 2025 (PY: £2.597bn), 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 which amounted to £755.39m as at 31 March 2025 (PY: £699.32m), due to the estimation uncertainty resulting from unobservable inputs to these investments.

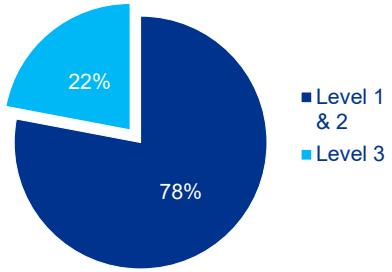
Planned response

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 by using our internal valuation specialist.
- **Level 3 Pooled Investment Vehicles:** For each Level 3 pooled investment vehicle investment manager, as part of our audit procedures we assess the work of the investment manager for use as audit evidence;
  - We obtained the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouch the valuation to this.
  - We further assessed the reliability of the NAV statements produced by fund managers on a sample basis by :
    - Obtaining and inspecting the latest audited financial statements for the underlying funds where available; and
    - Inspecting the audit report to confirm that it is unqualified and that the audit has been carried out by a reputable audit firm.

Audit risks and our audit approach (cont.)

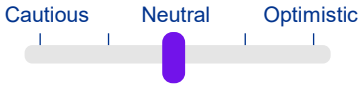
Level 1 & 2 Investments



Type of security	Market value 2025 (£m)	Percentage of portfolio 2025 (%)	Market value 2024 (£m)	Percentage of portfolio 2024 (%)
Pooled Investment Vehicles, Segregated investment, Derivatives & investment cash	2,671.29	77.9%	2,597.06	78.8%
Total	**2,671.29**	**77.9%**	**2,597.06**	**78.8%**

Our findings

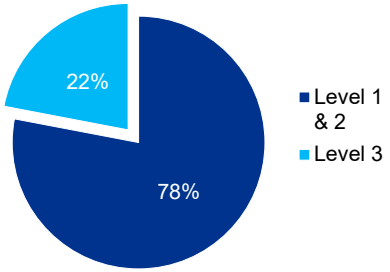
Type of security	Our findings
Pooled Investment Vehicles, Segregated investment, Derivatives & investment cash	Our in-house investment valuation team, iRADAR, has tested the fair values of segregated financial instruments, and level 1 & 2 Pooled Investment Vehicles & derivatives, and do not note any 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. We have not noted any possible 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 (cont.)

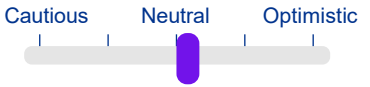
Level 3 Investments



Type of security	Market value 2025 (£m)	Percentage of portfolio 2025 (%)	Market value 2024 (£m)	Percentage of portfolio 2024 (%)
Pooled Investment Vehicles	755.39	21.8%	699.32	21.2%
Total	**755.39**	**21.8%**	**699.32**	**21.2%**

Our findings

Type of security	Our findings
Pooled Investment Vehicles	• For level 3 Pooled Investment Vehicles, we have vouched the valuations considered by management to the unaudited NAV statement. We found valuation of these investment based on unaudited NAV as appropriate. • We further assessed the reliability of the unaudited NAV statements provided by the investment manager by obtaining latest audited financial statements of fund and comparing with the unaudited NAV statement that aligns with the latest audited financial statements of fund. No issues were noted. • We have not noted any changes in method and underlying assumptions used to prepare accounting estimates related to valuation of level 3 investments. • We have not noted any possible 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 (cont.)

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

Other audit risk

- The actuarial position of the Pension Fund 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 Pension Fund's liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective.

Planned response

We performed the following procedures:

- Understand the processes in place to set the assumptions used in the valuation;
- Evaluate the competency, objectivity of the actuary to confirm their qualifications and the basis for their calculations;
- Perform inquiries of the Pension Fund's actuary to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Test the data provided used within the calculation of the Pension Fund valuation; and
- Evaluate, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data.

Audit risks and our audit approach (cont.)

4 The actuarial position of the Pension Fund is not appropriately presented in the financial statements (cont.)

Other audit risk

- The actuarial position of the Pension Fund 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 Pension Fund's liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective.

Our findings

- We evaluated the competency, objectivity of the actuary to confirm their qualifications and the basis for their calculations and found these to be appropriate.
- We performed inquiries of the Pension Fund's actuary to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets.
- We tested the data provided used within the calculation of the Pension Fund valuation and noted no issues. Please see earlier pages for results after testing contributions and benefit payments.
- We evaluated, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data. We note that overall as well as individual assumptions used for valuation are balanced and within our reasonable range. The methodology for valuation as well as setting individual assumptions is noted to be compliant with IAS 26.

Other matters

Narrative report

We have received Narrative Report and are in the process of checking it for the compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 ('the Code'). Based on the work performed:

- To date, we have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.
- To date, we have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council. As Pension Fund Committee members/ Audit Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

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.

Audit Fees

Our PSAA prescribed 2024/25 audit scale fee for the audit was £93,644 plus VAT (£82,725 in 2023/24). In 2023/24 we also had fee variations of £10,274 approved by PSAA for the impact additional audit work associated with ISA315R (£6,420) and the Council's implementation of a new ledger system (£3,854).

The scale fees for the FY 24/25 agreed with the PSAA takes into account the impact of ISA315 (Revised).

We note we have completed work for another auditor seeking assurance from us as the Pension Fund auditor – we will report these final fees once agreed with the Council and PSAA.

We have not completed any non-audit work at the Lincolnshire Pension Fund. Our fees for the Council's audit are reported separately to

Appendix

Contents

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 2025.
Adjusted audit differences	There were no adjusted audit differences.
Unadjusted audit differences	There were no adjusted audit differences.
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 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 22.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
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 Pension 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	The 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. We will not be able to certify the audit as complete when we issue our opinion as the NAO's work over the Whole of Government Accounts in respect of the Authority is not 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 Director and audit staff is not impaired.

To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of Lincolnshire 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 director 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 director not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

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 2025 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.

We note that the Fund is one of 11 partner funds in the Border to Coast Pension Partnership (BCPP). BCPP is an audit client of KPMG LLP and KPMG LLP also provides AAF 01/20 assurance reporting for BCPP. These do no constitute non-audit services in respect of the Pension Fund, but we include them here in the interest of completeness.

Description of scope of services	Threats and safeguards	Basis of fee	Value of Services Delivered in the year ended 31 March 2025 (£)	Value of Services Committed but not yet delivered (£)
AAF 01/20 reporting for Border to Coast Pension Partnership	BCPP is not considered an affiliate of the Pension Fund and therefore provision of this service is not a threat to our independence.	Fixed	136,300	Entering year 3 of an 8 year call-off contract with future fees approximately £1.5m total (excluding inflation) for the remaining years.

Confirmation of Independence

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.

	2024/25
	£'000
Statutory audit	94
Other Assurance Services	0
Total Fees	**94**

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 Committee of the Council, Pension Board and Pension 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 director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the Council, Pensions Board and Pensions Committee 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

KPMG LLP

Uncorrected audit misstatements

In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Pension Committee, details of all adjustments greater than £1.7m are to be communicated.

We have nothing to report in this regard.

Corrected audit misstatements

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

We noted a difference of £3.91 m on the investment asset value of the Pension Fund accounts included within the published County Council accounts and the audited Pension Fund accounts. This was caused by a time lag in the value of the Level 3 Morgan Stanley investments.

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	No segregation of duties controls when posting manual journals We identified that there are no segregation of duties controls when posting manual journals directly to the ledger. We identified that management have implemented a compensating control to review any manual journals which impact balance sheet movements, however for the purposes of our audit, we are unable to rely on this control as it is informal in nature. This was also raised in the prior year audit.	We discussed with management and note that the issue is due to ERP's functionality issue and cannot be addressed unless it is also changed in the administrating authority ERP. Management also note that as a compensating control, the manual journals are reviewed by competent authority outside of ERP in an excel document on a regular basis.

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 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

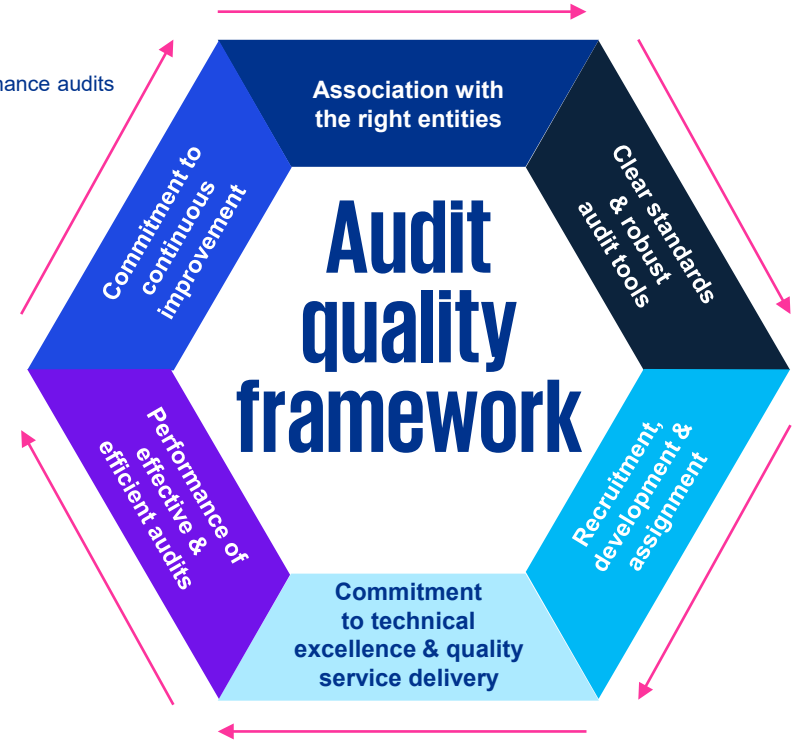
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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

kpmg.com/uk

Document Classification: KPMG Confidential