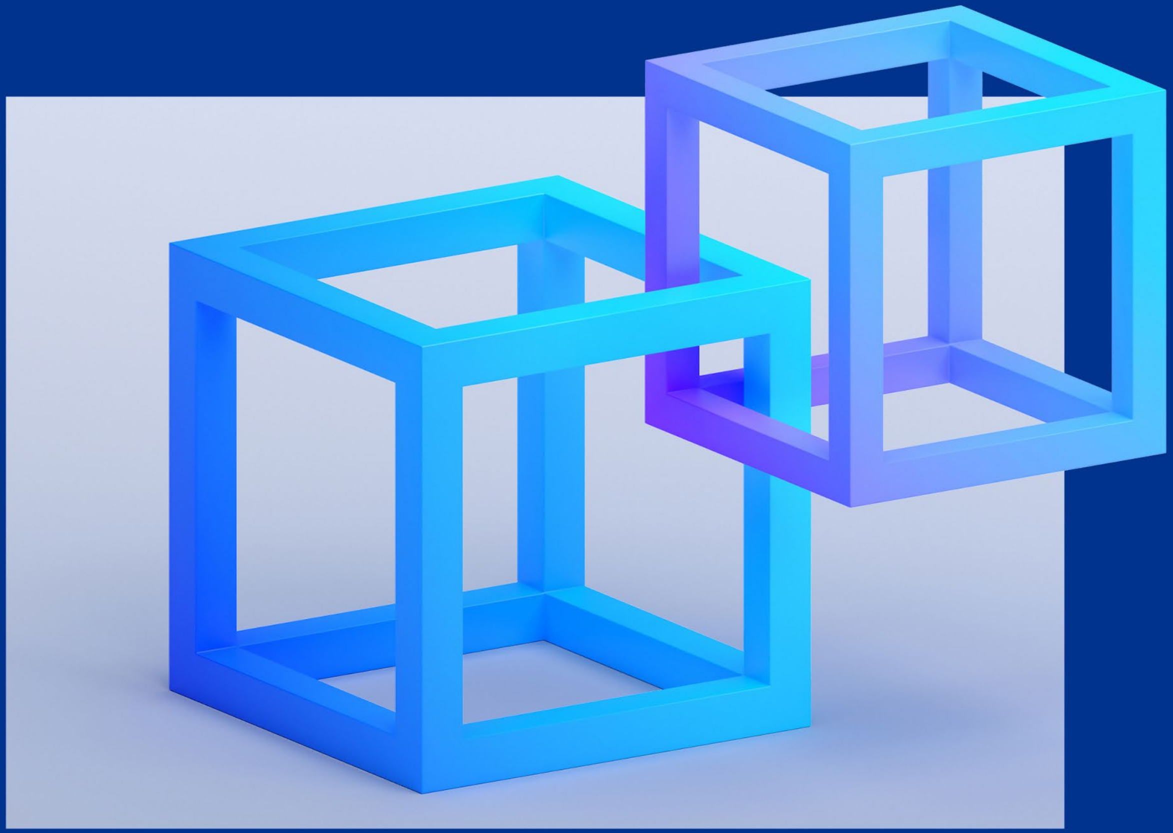
Haringey Pension Fund



Report to the Audit Committee, Pensions Committee and Board

Draft Audit plan and strategy for the year ended 31 March 2025

—

22 May 2025

Introduction

To the Audit Committee, Pension Committee and Board of Haringey Pension Fund

We are pleased to have the opportunity to meet with you to discuss our audit of the financial statements of Haringey Pension Fund for the year ended 31 March 2025.

We have been appointed as your auditors by Public Sector Audit Appointments Ltd. The audit is governed by the provisions of the Local Audit and Accountability Act 2014 and in compliance with the NAO Code of Audit Practice.

This report outlines our risk assessment and planned audit approach. Our planning activities are still ongoing and we will communicate any significant changes to the planned audit approach subsequently.

We provide this report to you in advance of the meeting to allow you sufficient time to consider the key matters and formulate your questions.

Contents	Page
Overview of planned scope including materiality	3
Significant risks and other audit risks	5
Audit risks and our audit approach	6
Other significant matters related to our audit approach	11
Mandatory communications	12
Appendix	14

The engagement team

Tim Cutler is the engagement partner on the audit. He has over 27 years experience in public sector audit.

Tim Cutler shall lead the engagement and is responsible for the audit opinion.

Other key members of the engagement team include engagement manager Katie Ho and in-charge M. Muhammad with over 8 years and over 5 years of experience respectively.

Yours sincerely,

Tim Cutler

Partner - KPMG LLP

22 May 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 controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We depend on well planned timing of our audit work to avoid compromising the quality of the audit. This is also heavily dependent on receiving information from management and those charged with governance in a timely manner.

Restrictions on distribution

This report is intended solely for the information of those charged with governance of Haringey Pension Fund and the report is provided on the basis that it should not be distributed to other parties; 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.

Overview of planned scope including materiality

Our materiality levels

We determined materiality for the Haringey Pension Fund financial statements at a level which could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. We used a benchmark of the Haringey Pension Fund's total assets which we consider to be appropriate given the sector in which the Pension Fund operates, its ownership and financing structure, and the focus of users.

To respond to aggregation risk from individually immaterial misstatements, we design our procedures to detect misstatements at a lower level of materiality £14m / 75% of materiality driven by our expectations of increased level of undetected or uncorrected misstatements in the period.

We will report misstatements to the Audit Committee, Pension Committee and Board including:

- Corrected and uncorrected audit misstatements above £935k;
- Errors and omissions in disclosures (corrected and uncorrected) and the effect that they, individually and in aggregate, may have on our opinion; and
- Other misstatements we include due to the nature of the item.

Control environment

The impact of the control environment on our audit is reflected in our planned audit procedures. Our planned audit procedures reflect findings raised by us in the prior year audit and management's response to those findings.

Materiality

Materiality for the financial statements as a whole	**£18.7m** 1% of total assets (23/24 £17.1m, 1% of total assets)
Procedure designed to detect individual errors at this level	**£14.0m** (23/24 £11.1m, 65% of materiality)
Misstatements reported to the Audit Committee and Pension Committee	**£935k** (23/24 £855k)

Haringey Pension Fund Materiality

£18.7m

1% of Pension Fund's total assets as at 31 Mar 2024

Overview of planned scope including materiality (cont.)

Timing of our audit and communications

We will maintain communication led by the engagement partner and senior manager throughout the audit. We set out below the form, timing and general content of our planned communications:

- Kick-off meeting with management in March 2025 where we presented our audit approach and discuss management's progress in key areas, with regular ongoing discussions, including sharing audit plans and findings through the year;
- Pension Committee and Board in June 2025 where we present our final audit plan;
- Status meetings with management in June 2025 and July 2025 where we communicate progress on the audit plan, any misstatements, control deficiencies and significant issues;
- Closing meeting with management in September 2025 where we discuss the auditor's report and any outstanding deliverables; and
- Pension Committee and Board in September 2025 where we communicate audit misstatements and significant control deficiencies.

Given the large amount of consultation happening in regard to the scope and timing of local government audit, this audit schedule may be subject to change.

Key developments in the year

Key developments	KPMG's response
Change of Head of Pensions During the year ended 31 March 2025 the Haringey Pension Fund Head of Pensions have been changed.	We will review the impact on our review of the control environment.
Change in approach to valuation of level 3 investments: During the year the management has taken the approach to value the lagged investments at year end using the latest available NAV statement and adjusting it for subsequent transactions. Thereby reducing the difference between actual valuation a at year end and the values taken by management.	We will review the impact on our audit of the valuation of investments.

Significant risks and other audit risks

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

Due to the current 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. Where such items are identified we will amend our audit approach accordingly and communicate this to the Pension Committee and Board.

Significant risks

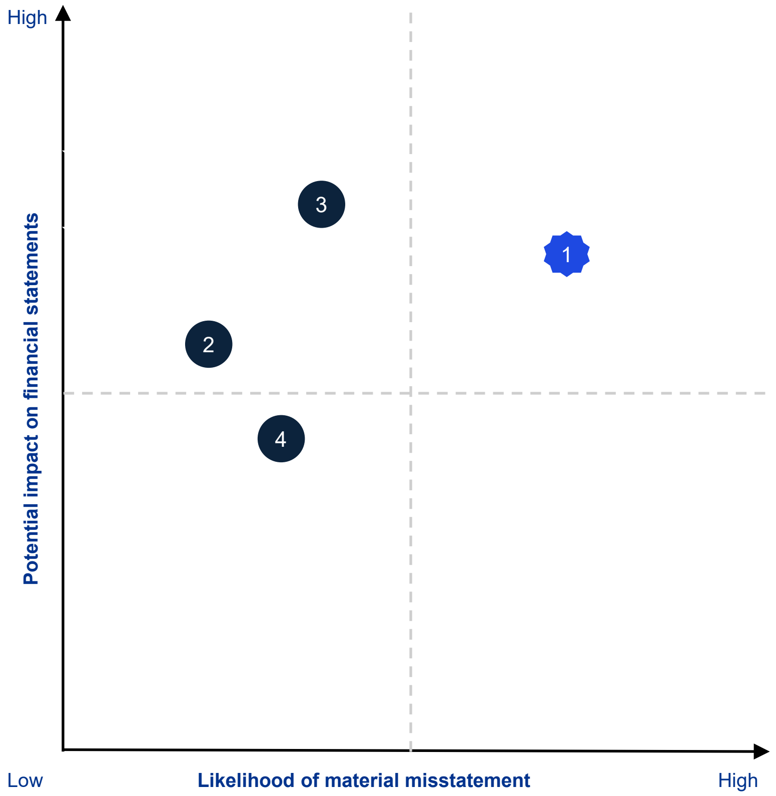
1 Management override of controls

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 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 and risk assessment procedures we identified that the Pension Fund does not have enforced segregation of duty controls over the posting of journals, specifically below £40k, 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.

Planned response

- As part of our audit procedures we will gain 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 will evaluate the design and implementation of controls over journal entries and post-closing adjustments.
- Assess the appropriateness of changes compared to the prior year and to the methods and underlying assumptions used to prepare accounting estimates.
- We will assess accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Assess the business rationale and the appropriateness of the accounting for significant transactions that are outside the normal course of business, or are otherwise unusual.
- We will evaluate the selection and application of accounting policies.
- We will analyze 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 will perform the following over journal entries and other adjustments:
  - Evaluate the completeness of the population of journal entries; and
  - We will determine high risk criteria and select journals based on this criteria for testing.

Audit risks and our audit approach (cont.)

2 Level 1, 2 and Level 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 Pension Fund. They are held with a number of investment managers across multiple asset classes. 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 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 will gain an understanding of the processes over the completeness, existence and accuracy of Level 1, 2 and 3 investments. This will include gaining an understanding of the control environment at all 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 (where available).
- We will obtain direct confirmations from your custodian and all your investment managers to vouch the holdings and valuation of assets at the year end.
- We will vouch purchases and sales to investment manager and/or custodian reports.
- We will recalculate 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.)

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% 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 c. £1.56bn as at 31 March 2024, 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 c. £3.17m as at 31 March 2024, due to the estimation uncertainty resulting from unobservable inputs to these investments.

Planned response

- **Segregated financial instruments:** Our in-house investment valuation team, iRADAR, will be 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 will recalculate 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 will obtain the unaudited Net Asset Value ('NAV') Statement at (or closest to) the measurement date and vouch the valuation to this.
- We will further assess 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;
  - 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 will agree them to unaudited pricing information at that date and reconcile significant movements to the Fund year end date agreeing movements to transaction statements.

Audit risks and our audit approach (cont.)

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

Planned response

- 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's valuation.
- 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.)

Revenue – rebuttal of significant risk	Expenditure – rebuttal of significant risk
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 receivable. 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 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.	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 Pension 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.

Other significant matters related to our audit approach

Additional reporting

The audit is undertaken to comply with the Local Audit and Accountability Act 2014, which places additional responsibilities on auditors, as well as further requirements to report to the National Audit Office.

Our audit responsibilities under the Code of Practice in respect of the Pension Fund, are as follows:

- We read any other information published alongside the London Borough of Haringey Council's financial statements to check that it is consistent with the Pension Fund's financial statements on which we give an opinion and is consistent with our knowledge of the Authority; and
- We consider our other duties under legislation and the Code, as and when required, including:
  - Giving electors the opportunity to raise questions about your 2024/25 financial statements, consider and decide upon any objections received in relation to the 2024/25 financial statements;
  - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State;
  - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
  - Issuing an advisory notice under Section 29 of the Act.

As part of our procedures on other information, we will obtain and read your Pension Fund's annual report and climate change disclosures. 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.

Mandatory communications - additional reporting

Going concern

Under NAO guidance, including Practice Note 10 - A local authority's financial statements shall be prepared on a going concern basis; this is, the financial statements should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. Transfers of services under combinations of public sector bodies (such as local government reorganization) do not negate the presumption of going concern.

Additional reporting

Your audit is undertaken to comply with the Local Audit and Accountability Act 2014 which gives the NAO the responsibility to prepare an Audit Code (the Code), which places responsibilities in addition to those derived from audit standards on us. We also have responsibilities which come specifically from acting as a component auditor to the NAO. In considering these matters at the planning stage we indicate whether:

Work is completed throughout our audit and we can confirm the matters are progressing satisfactorily OK	We have identified issues that we may need to report -	Work is completed at a later stage of our audit so we have nothing to report

We have summarised the status of all these various requirements at the time of planning our audit below and will update you as our work progresses:

Type	Status	Response
Our declaration of independence	OK	No matters to report. The engagement team and others in the firm, as appropriate, have complied with relevant ethical requirements regarding independence.
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 to date.
Certify the audit as complete		On completion of audit, 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.

Mandatory communications

Type	Statements
Management's responsibilities (and, where appropriate, those charged with governance)	Prepare financial statements in accordance with the applicable financial reporting framework that are free from material misstatement, whether due to fraud or error. Provide the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.
Auditor's responsibilities	Our responsibilities set out through the NAO Code (communicated to you by the PSAA) and can be also found on their website, which include our responsibilities to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Auditor's responsibilities – Fraud	This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.
Auditor's responsibilities – Other information	Our responsibilities are communicated to you by the PSAA and can be also found on their website, which communicates our responsibilities with respect to other information in documents containing audited financial statements. We will report to you on material inconsistencies and misstatements in other information.
Independence	Our independence confirmation (refer Appendix for page number) discloses matters relating to our independence and objectivity including any relationships that may bear on the Firm's independence and the integrity and objectivity of the audit engagement director and audit staff.

Appendix

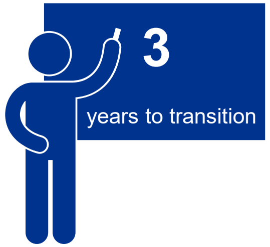
A	Audit team and rotation	15
B	Fees	16
C	Audit cycle & timetable	17
D	Confirmation of independence	18
E	KPMG’s audit quality framework	20
F	Understanding of IT	21
G	FRC’s area of focus	22

Audit team and rotation

Your audit team has been drawn from our Pensions Centre of Excellence and Public Sector Audit Teams and is led by key members of staff who will be supported by auditors and specialists as necessary to complete our work. We also ensure that we consider rotation of your audit director and firm.

Tim Cutler is the partner responsible for our audit. He will lead our audit work, attend the Audit Committee and be responsible for the opinions that we issue.	**Katie Ho** is the senior manager responsible for our audit. He will co-ordinate our audit work, attend the Audit Committee, Pensions Board and Pensions Committee as required.	**M. Muhammad** is the in-charge responsible for our audit for the year. He will be responsible for our on-site fieldwork. He will complete work on more complex sections of the audit.

To comply with professional standards we need to ensure that you appropriately rotate your external audit director. There are no other members of your team which we will need to consider this requirement for.



This will be the engagement partner's second year as your engagement lead.

Using the work of others and areas requiring specialised skill

We outline below where, in our planned audit response to audit risks, we expect to use the work of others such as Internal Audit or require specialised skill/knowledge to perform planned audit procedures and evaluate results.

Others	Extent of planned involvement or use of work
iRADAR	Our in-house investment team, iRADAR, will review the valuation of the equities held to identify any potential material pricing issues.
Actuarial specialist	We will engage Actuarial Specialist to determine the reasonableness of the assumptions used in the valuation of the promised retirement benefits liability of the Pension Fund.
KPMG IT Audit	We will work closely with the IT Audit team to obtain an understanding of IT systems operating at the Pension Fund.

Fees

Audit fee

Our proposed fees for the year ended 31 March 2025 have been agreed with the management.

Haringey Pension Fund	2024/25 (£'000)	*2023/24 (£'000)*
Statutory audit: Scale fees **	***88***	*78*
Agreed Prior Year fee variation for ISA 315**	-	*6*
Fee for building back assurance*	-	*6*
Fee for Journals testing overruns*	-	*4*
Fee for internal consultation on audit opinion*	-	*5*
TOTAL	**88**	***99***

** Subject to PSAA fee variation process*

*** ISA 315 fee is now included in the scale fees for FY 2025.*

We also note that we are the external auditors of London Borough of Haringey Council, our audit fees in relation to that audit are reported separately.

Billing arrangements

Fees will be billed in accordance with a billing schedule agreed with the PSAA.

Basis of fee information

In line with our standard terms and conditions the fee is based on the following assumptions:

- The Pension Fund's audit evidence files are completed to an appropriate standard (we will liaise with you separately on this);
- Draft statutory accounts are presented to us for audit subject to audit;
- Supporting schedules to figures in the accounts are supplied;
- A trial balance together with reconciled control accounts are presented to us;
- All deadlines agreed with us are met;
- We find no weaknesses in controls that cause us to significantly extend procedures beyond those planned;
- Management will be available to us as necessary throughout the audit process; and
- There will be no changes in deadlines or reporting requirements.

We will provide a list of schedules to be prepared by management stating the due dates together with pro-formas as necessary.

Our ability to deliver the services outlined to the agreed timetable and fee will depend on these schedules being available on the due dates in the agreed form and content.

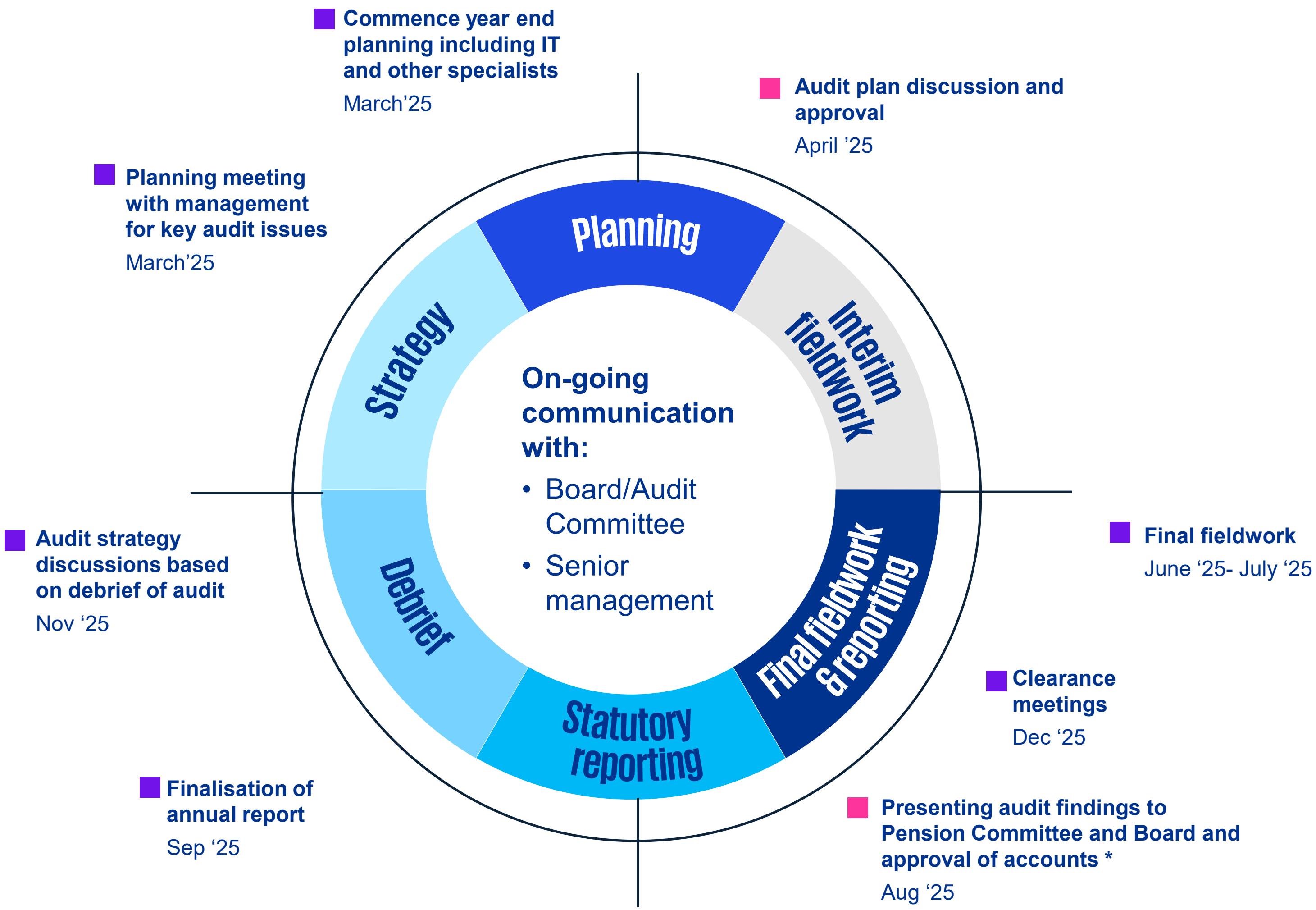
If there are any variations to the above plan, we will discuss them with you and agree any additional fees before costs are incurred wherever possible.

Audit cycle & timetable

Our 2024/25 schedule

Key:
- Timing of A&RC communications
- Key events

Given the large amount of consultation happening in regard to the scope and timing of local government this audit schedule may be subject to change.



** While we propose to complete the audit in line with the timelines mentioned here. However, please note that the audit cannot be finalized until the audit of London Borough of Haringey Council has finalized.*

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 Pensions Committee and Board members

Assessment of our objectivity and independence as auditor of Haringey 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.

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

The conclusion of the audit engagement partner as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

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.

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.

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: Scale fees	88
Other assurance services	TBC
Total Fees	**TBC**

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 Committee and Board.

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 Council and Pension Committee and Board 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

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 partner 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

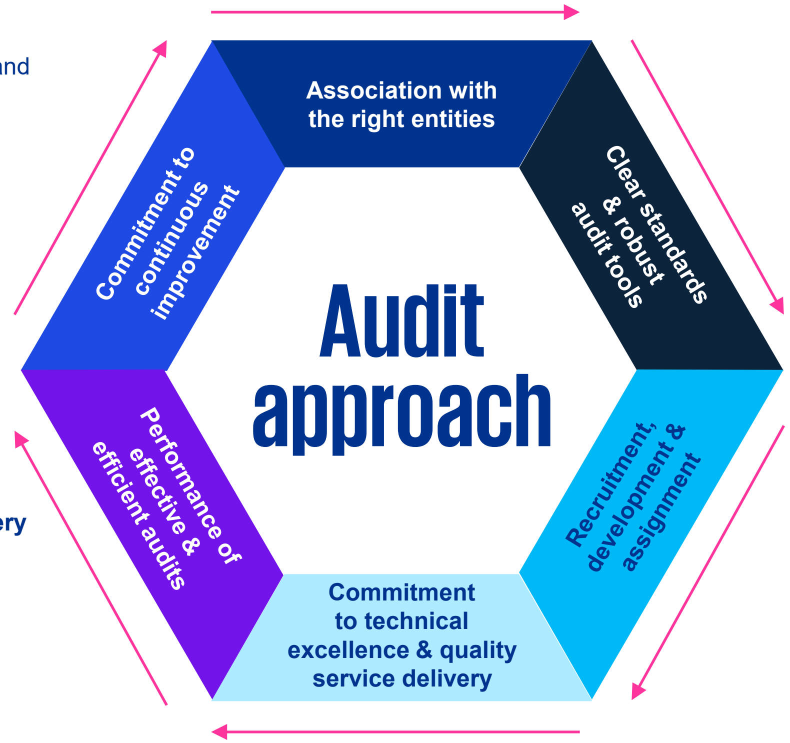
- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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 entities 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 and specialists

Understanding of IT

Effect on audit effort

Summary

The release of ISA 315 (UK) revised brought an increased focus on Understanding of IT in the audit, and it continues to be an area of focus.

Stakeholders now expect auditors to not only understand IT in detail, but also to consider the impact of the findings from their risk assessment procedures on their planned audit approach.

Why is Understanding of IT so important?

Businesses continue to embrace increasingly complex and sophisticated IT systems and place more and more reliance on automated IT processing not simply for a competitive advantage, but also for "business as usual" operations.

This increased reliance means that to effectively audit accounts, balances and transactions, auditors are required to understand and challenge more around how those IT system and process work.

Therefore, Understanding of IT is a crucial building block of our audit strategy and influences our planned audit approach at every stage.

This is true regardless of whether controls reliance is planned or the audit is expected to be fully substantive in nature.

What kind of things might we identify?

As part of our risk assessment procedures, we perform:

- An assessment of the formality, or otherwise, of certain financially relevant IT processes
- An evaluation of the design and implementation of related general IT controls
- An evaluation of the design and implementation of automated process level controls

As a result of these procedures, we may identify IT control deficiencies or IT process informalities that may have an impact on our planned audit approach.

Additionally, we may identify findings related to the wider control environment or threats to the accuracy or completeness of the information used by both entity management and auditors alike.

What does this mean for our audits?

Auditors are being asked to consider the findings from their risk assessment procedures over IT in relation to the planned audit approach.

The findings may impact any area of the audit, however there are three main areas of focus where we anticipate that most impact as a result of identifying IT deficiencies or IT process informality;

- Increased risk to data integrity
- Additional fraud risk factors
- Additional high-risk criteria to be used in journals analysis

It is important to understand that these findings may have an impact regardless of planned reliance on automated controls and general IT controls.

FRC's areas of focus

The FRC released their Annual Review of Corporate Reporting 2023/24 ('the Review') in September 2024 having already issued three thematic reviews during the year.

The Review and thematics identify where the FRC believes companies can improve their reporting. These slides give a high level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.

Key expectations for 2024/25 annual reports

Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained this year, but there is a widening gap in standards between FTSE 350 and non-FTSE 350 companies. This is noticeable in the FRC's top two focus areas, 'Impairment of assets' and 'Cash Flow Statements'.

'Provisions and contingencies' has fallen out of the top ten issues for the first time in over five years. This issue is replaced by 'Taskforce for Climate-related Financial Disclosures (TCFD) and climate-related narrative reporting'.

The FRC re-iterates that companies should apply careful judgement to tell a consistent and coherent story whilst ensuring the annual report is clear, concise and company-specific.

Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. The FRC continues to be frustrated by the increasing level of restatements affecting the presentation of primary statements. This indicates that thorough, 'step-back' reviews are not happening in all cases.

Risks and uncertainties

Geopolitical tensions continue and low growth remains a concern in many economies, particularly with respect to going concern, impairment and recognition/recoverability of tax assets and liabilities. The FRC continue to push for enhanced disclosures of risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

Financial reporting framework

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented. In particular the requirements for a true and fair view, along with a fair, balanced, and comprehensive review of the company's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, and companies should exercise judgement in determining what information to include.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.

FRC's areas of focus (cont.)

Impairment of assets

Impairment remains a key topic of concern, exacerbated in the current year by an increase in restatements of parent company investments in subsidiaries.

Disclosures should provide adequate information about key inputs and assumptions, which should be consistent with events, operations and risks noted elsewhere in the annual report and be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in it's current condition when using a value in use approach and should not extend beyond five years without explanation.

Preparers should consider whether there is an indicator of impairment in the parent when its net assets exceed the group's market capitalisation. They should also consider how intercompany loans are factored into these impairment assessments.

Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements and this was highlighted in the 'Offsetting in the financial statements' thematic.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

Climate

This is a top-ten issue for the first time this year, following the implementation of TCFD.

Companies should clearly state the extent of compliance with TCFD, the reasons for any non-compliance and the steps and timeframe for remedying that non-compliance. Where a company is also applying the Companies Act 2006 Climate-related Financial Disclosures, these are mandatory and cannot be 'explained', further the required location in the annual report differs.

Companies are reminded of the importance of focusing only on material climate-related information. Disclosures should be concise and company specific and provide sufficient detail without obscuring material information.

It is also important that there is consistency within the annual report, and that material climate related matters are addressed within the financial statements.

Financial instruments

The number of queries on this topic remains high, with Expected Credit Loss (ECL) provisions being a common topic outside of the FTSE 350 and for non-financial and parent companies.

Disclosures on ECL provisions should explain the significant assumptions applied, including concentrations of risk where material. These disclosures should be consistent with circumstances described elsewhere in the annual report.

Companies should ensure sufficient explanation is provided of material financial instruments, including company-specific accounting policies.

Lastly, the FRC reminds companies that cash and overdraft balances should be offset only when the qualifying criteria have been met.

Judgements and estimates

Disclosures over judgements and estimates are improving, however these remain vital to allow users to understand the position taken by the company. This is particularly important during periods of economic and geopolitical uncertainty.

These disclosures should describe the significant judgements and uncertainties with sufficient, appropriate detail and in simple language.

Estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

Further, sensitivities and the range of possible outcomes should be provided to allow users to understand the significant judgements and estimates.

FRC's areas of focus (cont.)

Revenue

Disclosures should be specific and, for each material revenue stream, give details of the timing and basis of revenue recognition, and the methodology applied. Where this results in a significant judgement, this should be clear.

Presentation

Disclosures should be consistent with information elsewhere in the annual report and cover company-specific material accounting policy information.

A thorough review should be performed for common non-compliance areas of IAS 1.

Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the annual report.

The effect of Pillar Two income taxes should be disclosed where applicable.

Strategic report and Companies Act

The strategic report must be 'fair, balanced and comprehensive'. Including covering all aspects of performance, economic uncertainty and significant movements in the primary statements.

Companies should ensure they comply with all the statutory requirements for making distributions and repurchasing shares.

Fair value measurement

Explanations of the valuation techniques and assumptions used should be clear and specific to the company.

Significant unobservable inputs should be quantified and the sensitivity of the fair value to reasonably possible changes in these inputs should provide meaningful information to readers.

Thematic reviews

The FRC has issued three thematic reviews this year: 'Reporting by the UK's largest private companies' (see below), 'Offsetting in the financial statements', and 'IFRS 17 Insurance contracts –Disclosures in the first year of application'. The FRC have also performed Retail sector research (see below).

UK's largest private companies

The quality of reporting by these entities was found to be mixed, particularly in explaining complex or judgemental matters. The FRC would expect a critical review of the draft annual report to consider:

- internal consistency
- whether the report as a whole is clear, concise, and understandable; notably with respect to the strategic report
- whether it omits immaterial information, or
- whether additional information is necessary for the users understanding particularly with respect to revenue, judgments and estimates and provisions

Retail sector focus

Retail is a priority sector for the FRC and the research considered issues of particular relevance to the sector including:

- Impairment testing and the impact of online sales and related infrastructure
- Alternative performance measures including like for like (LFL) and adjusted e.g. pre-IFRS 16 measures
- Leased property and the disclosure of lease term judgements, particularly for expired leases.
- Supplier income arrangements and the clarity of accounting policies and significant judgements around measurement and presentation of these.

2024/25 review priorities

The FRC has indicated that its 2024/25 reviews will focus on the following sectors which are considered by the FRC to be higher risk by virtue of economic or other pressures:

- Industrial metals and mining
- Construction and materials
- Food producers
- Retail
- Gas, water and multi-utilities
- Financial Services

kpmg.com/uk