



Oxfordshire County Council Pension Fund

Year ending 31 March 2013

Audit Plan

March 2013

Audit and Governance Committee
Oxfordshire County Council Pension Fund
County Hall
New Road
Oxford
OX1 1ND
CO3 3WG

28 March 2013

Dear Councillor Wilmshurst

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as your auditor. The purpose of this report is to provide the Audit and Governance Committee with a basis to review our proposed audit approach and scope for the 2012/13 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements. The purpose is also to allow the Committee to consider whether our audit is aligned with their service expectations.

This report summarises our assessment of the key risks which drive the development of an effective audit for the Pension Fund, and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this report with you on 17 April 2013 as well as understand whether there are other matters which you consider may influence our audit.

Yours sincerely



Maria Grindley
For and behalf of Ernst & Young LLP
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1. Overview

Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with our audit opinion on whether the financial statements of Oxfordshire County Council Pension Fund give a true and fair view of the financial position as at 31 March 2013 and of the income and expenditure for the year then ended.

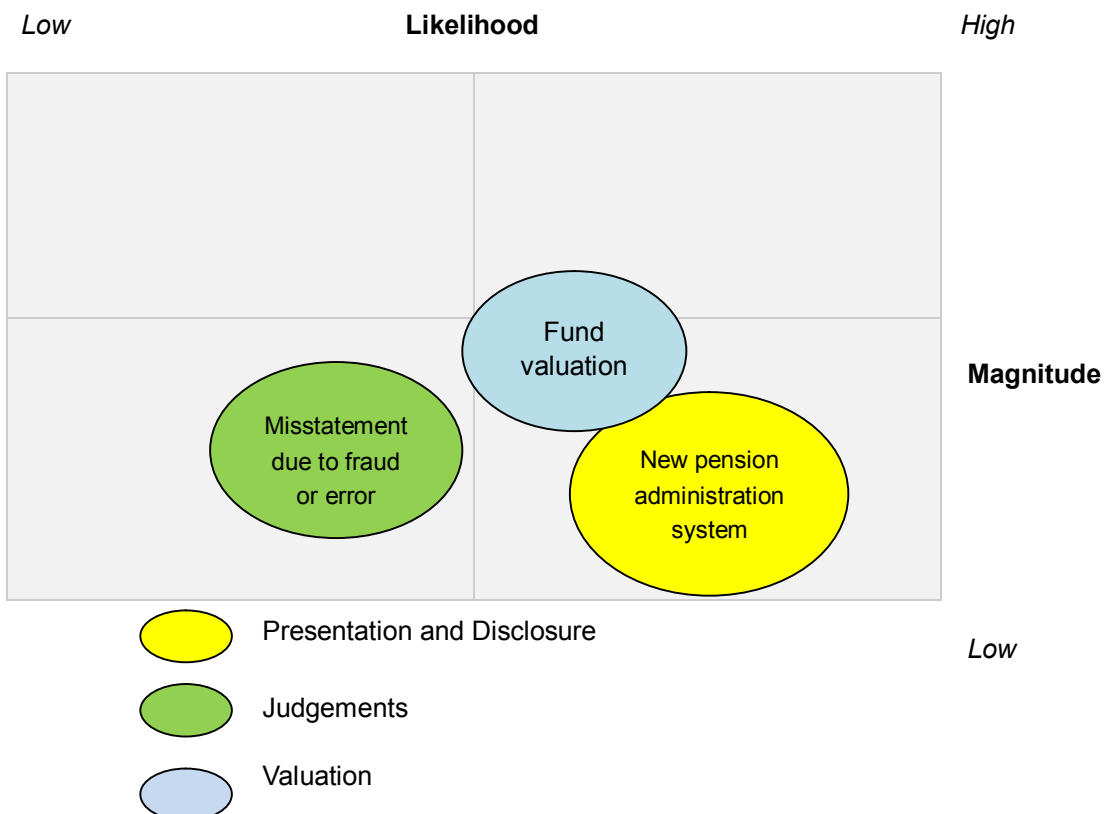
When planning the audit we take into account several key inputs:

- ▶ Strategic, operational and financial risks relevant to the financial statements.
- ▶ Developments in financial reporting and auditing standards.
- ▶ The quality of systems and processes.
- ▶ Changes in the business and regulatory environment.
- ▶ Management’s views on all of the above.

By considering these inputs, our audit is focused on the areas that matter. And by focusing on the areas that matter, our feedback is more likely to be relevant to the Pension Fund. Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

In part 2 and 3 of this report we provide more detail on the areas which we believe present risks to the financial statements audit, and outline our plans to address these risks. Details of our audit process and strategy are set out in more detail in section 4, and summarised below.

The grid below shows the overall assessment of these risks in terms of their likelihood of occurrence in 2012/13 as well as the perceived magnitude of the risk to our opinion.



We have not identified any significant risks to the audit opinion.

We have identified three other risks to the financial statements:

- Misstatement due to fraud and error - this is an inherent risk due to the nature of local authority finances and increasing pressures on management to achieve financial targets
- New pension administration system – The change to the system at the end of March will raise risks around the transfer of data and
- Fund Valuation – the actuary prepares an estimate of the overall funding position of the fund and its potential future liabilities. This is an accounting estimate with inherent uncertainty requiring robust data from the pension fund.

We will provide an update to the Audit and Governance Committee on the results of our work in the above areas in our report to those charged with governance scheduled for delivery in September 2013.

Our process and strategy

- ▶ Financial statement audit
 - ▶ We will apply the concept of materiality in planning and performing our audit, in evaluating the effect of any identified misstatements and in forming our opinion. We set our materiality based on the Pension Fund's net assets. We also consider the Pension Fund's reporting history. Our audit is designed to identify errors above materiality.
 - ▶ We aim to rely on the Pension Fund's internal controls in the key financial systems to the fullest extent allowed by auditing standards. We identify the controls we consider important and seek to place reliance on internal audit's testing of those controls. Where control failures are identified we consider the most appropriate steps to take.
 - ▶ We seek to place reliance on the work of internal audit wherever possible. We have already liaised with internal audit and have agreed a detailed approach to reliance and joint working.
 - ▶ There has been no change to the scope of our audit compared to previous audits.

2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Oxfordshire County Council Pension Fund, identified through our knowledge of the entity's operations and discussion with members and officers.

At our meeting, we will seek to validate these with you.

Other risks (including fraud risks)

Our audit approach

New pension administration System

The pension administration system is being changed at the end of March 2013. This presents challenges around ensuring full and accurate data is transferred to the new system and that the new system will operate effectively and securely.

Our approach will focus on:

- ▶ Understanding the arrangements in place for full and accurate transfer of data and ensuring effective operation of the new system
- ▶ Reviewing key documentation around data transfer and system operation.

Fund valuation

There will be an update to the fund valuation in 2013. The valuation will be based on data sent to the actuaries from the Pension Fund.

Our approach will focus on:

- ▶ Review of controls over the accuracy and completeness of data sent to the actuary
- ▶ Testing of key data to source.

Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud. Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

The Pension Fund continues to face significant financial pressures due to reduced returns on investment. In addition the fund faces a number of fraud risks around misuse of assets and inappropriate benefit claims. This presents a risk that the financial statements may be materially misstated.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ inquiry of management about risks of fraud and the controls put in place to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address those identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified fraud risks.

We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

Our approach to address the risks of fraud we have identified at this stage of our planning will focus on:

- ▶ reviewing year end figures against expectations
- ▶ considering benefit fraud with officers and within review of financial systems
- ▶ reviewing the work of the custodian
- ▶ testing material adjustments made by journals and
- ▶ reviewing transactions both before and after year-end to ensure they are correctly disclosed in the correct financial period.

3. Our audit process and strategy

3.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Pension Fund's financial statements in both the County Council's financial statements and the Pension Fund's Annual Report. We will issue two audit reports covering these objectives.

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

3.2 Audit process overview

Our audit involves:

- ▶ assessing the key internal controls in place and testing the operation of these controls;
- ▶ review and re-performance of the work of your internal auditors;
- ▶ reliance on the work of other auditors where appropriate;
- ▶ reliance on the work of experts in relation to areas such as valuation of the fund; and
- ▶ substantive tests of detail of transactions and amounts.

Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to test key controls, both manual and IT:

- Cash processing
- Investments
- Pension Benefits and lump sums;
- Transfers in
- Transfers out and
- IAS26 disclosures regarding fund value including data sent to the actuary.

We expect to test contributions substantively at year end.

Analytics

We aim to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of benefits payroll and journal entries. These tools:

- help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and

- give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and The Audit and Governance Committee.

Internal audit

As in prior years, we will review internal audit plans and the results of work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements and/or the value for money conclusion.

We will seek to place reliance on the work of internal audit wherever possible in line with auditing standards. We have already liaised with internal audit and have agreed a detailed approach to reliance and joint working.

Use of experts

We will utilise Ernst & Young pensions experts, as necessary, to help us to form a view on judgments made in the financial statements.

We will utilise the work of Oxfordshire Pension Fund's actuaries in setting IAS26 figures.

Other procedures

In addition to the key areas of emphasis outlined, we have to perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline the procedures we will undertake during the course of our audit.

Mandatory procedures required by auditing standards on:

- ▶ Addressing the risk of fraud and error.
- ▶ Significant disclosures included in the financial statements.
- ▶ Entity-wide controls.
- ▶ Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements.
- ▶ Auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Governance Statement.

3.3 Materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will

form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are “clearly trivial”. All uncorrected misstatements found above this amount will be presented to you in our year-end report.

3.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Oxfordshire County Council Pension Fund is £24,108.

3.5 Your audit team

The engagement team is led by Maria Grindley, who has significant experience on Oxfordshire County Council Pension Fund. Maria is supported by technical experts from within the Ernst & Young Pension Fund team. Mary Fetigan is responsible for the day-to-day direction of audit work, and who is the key point of contact for Deputy Chief Finance Officer and pension team.


3.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the Audit and Governance Committee cycle in 2013. These dates are determined to ensure our alignment with the Audit Commission’s rolling calendar of deadlines.

We will provide a formal report to the Audit and Governance Committee in July and September, incorporating the outputs from the interim audit and our year-end procedures respectively. From time to time matters may arise that require immediate communication with the Committee and we will discuss them with the Audit and Governance Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare a management letter in order to communicate to the Pension Fund and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	timetable Audit & Governance Committee	Deliverables
High level planning:	January	January	Audit Fee letter
Risk assessment and setting of scopes	December - March	April	Progress Report Audit Plan
Testing of routine processes and controls	January - April	July	Progress Report
Year-end audit	July – September	September	Report to those charged with governance Audit reports (including our opinions on the financial statements within the County Council financial statements and within the Annual Report) Audit completion certificate
Reporting	November	November	Management Letter



In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission’s Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Self interest threats

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved and that are in compliance with the Audit Commission's Standing Guidance.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard 4.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that Ernst & Young is independent and the objectivity and independence of Maria Grindley, your audit engagement partner and the audit engagement team have not been compromised.

4.3 Other required communications

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 29 June 2012 and can be found here:

[UK 2012 Transparency Report](#)

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2012/13	Actual Fee 2011/12	Explanation of variance
	£'000	£'000	
Total Audit Fee – Code work	24,108	39,414	39% reduction reflects the savings achieved from the Audit Commission procurement exercise.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables
- ▶ We are able to place reliance, as planned, on the work of internal audit
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year
- ▶ Our accounts opinion being unqualified
- ▶ Appropriate quality of documentation is provided by the audited body
- ▶ Effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you in advance.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the audit committee, or equivalent, of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Report to those charged with governance
Misstatements <ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ In writing, corrected misstatements that are significant 	Report to those charged with governance
Fraud <ul style="list-style-type: none"> ▶ Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Report to those charged with governance
External confirmations <ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Report to those charged with governance
Consideration of laws and regulations <ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the panel may be aware of 	Report to those charged with governance
Independence Communication of all significant facts and matters that bear on Ernst & Young's objectivity and independence	Audit Plan Report to those charged with

Required communication	Reference
<p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> ▶ Relationships between Ernst & Young, the audited body and senior management ▶ Services provided by Ernst & Young that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by Ernst & Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the ethical standards ▶ The Audit and Governance Committee should also be provided an opportunity to discuss matters affecting auditor independence 	governance
<p>Going concern Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Report to those charged with governance
<p>Significant deficiencies in internal controls identified during the audit</p>	Report to those charged with governance
<p>Certification work</p> <ul style="list-style-type: none"> ▶ Summary of certification work undertaken 	Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary

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