Oxfordshire Pension Fund Outline Audit Planning Report

Year ended 31 March 2023

04 January 2024

Building a better working world

04 January 2024

Oxfordshire Pension Fund
County Hall
New Road
Oxford
OX1 1ND

Dear Audit and Governance Committee Members

We are pleased to attach our Outline Audit Planning Report for the forthcoming meeting of the Audit Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2022/23 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Audit Committee's service expectations.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for the Fund. We have aligned our audit approach and scope with these. We held a planning meeting with management and are currently completing our audit planning procedures based on our historic knowledge of the Pension Fund and sector wide knowledge. We will update the Audit and Governance if there are any changes to our risk assessment once we have complete all our planning procedures.

This report is intended solely for the information and use of the Audit Committee, Pensions Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 10 January 2024, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully,

Kevin Suter

Partner

For and on behalf of Ernst & Young LLP

Contents

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk).
The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.
The "Terms of Appointment (updated April 2018)" issued by the PSAA sets out additional requirements with which auditors must comply, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee, the Pensions Committee and management of the Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we can state to the Audit Committee, the Pensions Committee, and management of the Fund, those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, the Pensions Committees and management of the Fund for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.

01 Overview of our 2022/23 audit strategy

Overview of our 2022/23 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Risk of inappropriate posting of investment journals	Fraud risk	No change in risk or focus	Investment valuations are manually input on the GL. Our judgement is that the Pension Fund's fraud risk relates to inappropriate journal posting of investments as reported by the custodian. This would affect the long-term investment portfolio value.
Valuation of complex investments (unquoted and pooled investments)-Level 3	Significant risk	No change in risk or focus	Investments at Level 3 are those where at least one input with a potentially significant effect on the asset's valuation is not based on observable market data. Significant judgements are made by the Investment Managers or administrators to value these investments for which prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error. Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. These variations could have a material impact on the financial statements.
Valuation of investments under Level 2 fair value hierarchy	Inherent risk	No change in risk or focus	The valuation of investments under level 2 fair value hierarchy are based on observable inputs such as bid price in the market for similar instruments. There is a risk that the comparable inputs are not appropriate and valuation could be misstated.
IAS 26 – Present value of retirement benefits	Inherent risk	No change in risk or focus	An actuarial estimate of the present value of future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on triennial valuation as at 31 March 2022 and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability. There is a risk that the valuation uses inappropriate assumptions to value the present value of the future benefits as at 31 March 2023.

Overview of our 2022/23 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit and Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Materiality

Planning materiality

£31.70m

Materiality has been set at £31.70 million, which represents 1% of the 2022/23 draft accounts net assets of the scheme available to fund benefits. The Pension Fund is a major local authority based on its size. We have considered the overall risk profile and public interest in comparison to other Pension Funds, and have set planning materiality to 1% of net assets.

Performance materiality

£23.78m

Performance materiality has been set at £23.78 million, which represents 75% of materiality. This is the upper end of our range based on no errors identified in previous periods.

Audit differences

£1.59m

We will report all uncorrected misstatements relating to the primary statements (Net Assets Statement and Pension Fund Accounts) greater than £1.59 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit and Governance Committee.

Overview of our 2022/23 audit strategy

Audit scope

This Outline Audit Planning Report covers the work that we plan to perform to provide you with:

- an audit opinion on whether the financial statements of Oxfordshire Pension Fund Fund give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

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; and
- Management’s views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Fund.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on “the auditors assessment of risk and the work needed to meet their professional responsibilities”. PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuation of pension obligations, the introduction of new accounting standards in recent years as well as the expansion of factors impacting the audit such ISA 540 (revised) and ISA315. Therefore to the extent any of these or any other risks are relevant in the context of Oxfordshire Pension Fund audit, we will discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements
Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Overview of our 2022/23 audit strategy

Timeline

The target date for you to publish Pension Fund accounts for the financial year ending 31 March 2023 was 30 September 2023, as set out within the Accounts and Audit (Amendment) Regulations 2022. In line with our previous communications with you, due to the complex set of factors contributing to audit delays across the sector we were not be able to give our opinion on your financial statements by 30 September 2023. Refer to Section 06 for the indicative timelines.

Fees

We remain in discussion with PSAA about our proposed increase to the scale fee which we consider to be appropriate to deliver an audit compliant with audit quality requirements. We include in Section 08, our current view of the fees required to carry out the 2022/23 audit. We will update the Committee on any determinations by PSAA on fees.

Audit team changes

Key change to our team.

Manager: Kalthiemah Abrahams

Kalthiemah Abrahams has taken over from Alison Kennett. Kalthiemah has over 10 years of public sector experience in South Africa

02 Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks *) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*	What is the risk?	What will we do?

	The financial statements as a whole are not free of material misstatements whether caused by fraud or error.
	
	As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
	
	We identify and respond to this fraud risk on every audit engagement.
		We will undertake our standard procedures to address fraud risk, which include:
		▸ Identifying fraud risks during the planning stages.
		▸ Inquiring 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.
		▸ Considering the effectiveness of management's controls designed to address the risk of fraud.
		▸ Determining an appropriate strategy to address those identified risks of fraud.
		▸ Performing mandatory procedures regardless of specifically identified fraud risks, including;
		    ▸ testing of journal entries and other adjustments in the preparation of the financial statements;
		    ▸ reviewing accounting estimates for evidence of management bias; and
		    ▸ evaluating the business rationale for significant unusual transactions.
		
		We will use our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.

Our response to significant risks (continued)

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Risk of inappropriate posting of investment journals*

What is the risk?

Investment valuations are manually input on the general ledger, so there is opportunity to manipulate the valuation of investments reported in the Net Asset Statement.

What will we do?

Our approach will focus on:

- testing of journals at year-end to ensure there are no unexpected or unusual postings;
- undertaking a review of reconciliations between the fund manager/ custodian reports/ valuer's reports and investigating any reconciling differences over a specified threshold;
- re-perform the detailed investment note using the reports we have acquired directly from the custodian or fund managers; and
- check the reconciliation of holdings included in the Net Assets Statement back to the source reports.

We will use our data analytics capabilities to assist with our work, including journal entry testing. We will assess journal entries for evidence of management bias and evaluate for business rationale.

Financial statement impact

Manipulation of investment values would increase the net value of pension fund assets.

Total Investments for 2020/21: £3,212 million and 2021/22 £3,121 million.

As our performance materiality is £23.78 million, any manipulation over 1% would result in a material error to the value of investments.

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Valuation of complex investments (unquoted and pooled investments)

Financial statement impact

Misstatements that occur in relation to Complex Investments valued at level 3 fair value hierarchy such as unquoted private equities and pooled property investments could affect the valuation of the Net Assets and investment income in the Fund Accounts.

The Pension Fund held £727 million level 3 investments at 31 March 2022 and £802 million at 31 March 2023.

What is the risk?

The Fund's Investments include a significant balance of level 3 investments such as pooled property investment and unquoted private equity. Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data.

Significant judgements are taken by Investment Managers to value those investments whose prices are not publicly available.

Market volatility means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

What will we do?

Our approach will focus on:

- obtaining a schedule of investments to ensure correct classification, presentation and disclosure of items in the financial statements and corresponding notes;
- obtaining an understanding and evaluating of the work of management's expert;
- Assess the competence of valuation experts through review and analysis of ISAE 3402 internal control reports issued on the fund managers and the custodian;
- Where the ISAE 3402 reports are not issued at 31 March 2023, we will obtain and review bridging letters;
- Review the control reports for any issues or qualifications which impact the valuation controls over the funds.
- Review the basis of valuation for property investments and other unquoted investments, assessing the appropriateness of the valuation methods used;
- Where available, review the latest audited accounts for the relevant underlying investment funds and compare the net asset values with the valuation of the assets in the accounts of the Fund. We will also ensure there are no matters arising that highlight weaknesses in the Fund's valuation;
- If the latest audited accounts are issued at a different date compared to the reporting date of the Fund, we will perform roll forward procedures to support the valuation of the investments as of 31 March 2023, such as benchmark indexation for similar assets and analysis of cash movements in the gap period and understand what the Pension Fund has done to assess how the valuations are still materially correct as at 31 March 2023; and
- testing accounting entries have been correctly processed in the financial statements.

If necessary, our internal valuation specialists will support our work in this area.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

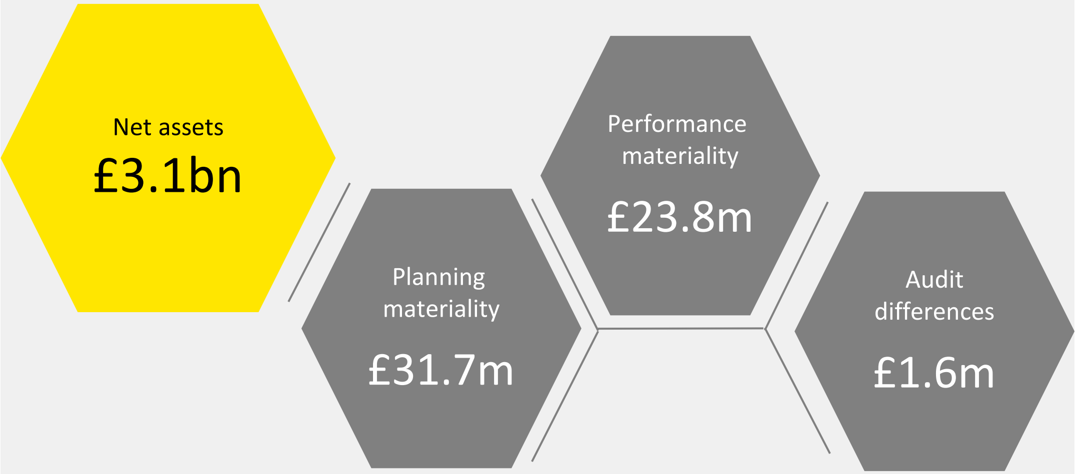
What is the risk/area of focus?	What will we do?
Valuation of investments under Level 2 fair value hierarchy The Pension Fund held £2,370 million level 2 investments at 31 March 2022 and £2,275 million at 31 March 2023. These are assets where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. Valuations are based on either evaluated prices provided by independent pricing services, closing bid price where bid and offer are published or estimated valuation reported by a counterparty.	In order to address this risk we will carry out a range of procedures including: ▸ Where the funds are actively traded in listed markets/exchange, test the valuation by using the EY Investment Security Pricing Tool; ▸ Alternatively, inspecting quotations, financial statements of investees and other evidence of current value, cost or equity amount of investments and test that investments are classified, recorded and measured in accordance with the entity's accounting policies and applicable financial reporting framework; ▸ Perform triangulation work to agree amounts per the financial statements to Fund Manager and to Custodian; and ▸ Where Level 2 Investments are not listed, we may revert to Level 3 testing as detailed on page 12.
IAS 26 – Present value of retirement benefits The Pension Fund had a present value of funded obligation of £4,529m as at 31 March 2022 and £3,278m as at 31 March 2023. Accounting for the present value of retirement benefits involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The figure is material and subject to complex estimation techniques and judgements by the actuary. The estimate is based on a roll-forward of data from the 2022 triennial valuation, updated where necessary, and has regard to local factors such as expected pay rises along with other assumptions around inflation and discount rate when calculating the estimate. There is a risk that the valuation uses inappropriate assumptions to calculate the estimate as at 31 March 2023.	In order to address this risk we will carry out a range of procedures including: ▸ Assessing the competence of management experts, Hymans Robertson; ▸ Engaging with the NAO's consulting actuary and our EY Pensions team to review whether the IAS26 approach applied by the actuary is reasonable and compliant with IAS26; ▸ Engaging with EY Pensions to undertake procedures to create an auditor's estimate for the pension liability, which we use to gain assurance over the process and assumptions used to estimate the present value of future retirement benefits; ▸ Ensure that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the actuary; and ▸ Perform audit procedures to assess the accuracy of membership numbers

03 Audit materiality

Materiality

Materiality

For planning purposes, we have set planning materiality for 2022/23 at £31.7million. This represents 1% of the Pension Fund's net assets value from the draft financial statements. It will be reassessed throughout the audit process. In an audit of a pension fund we consider the net assets to be the appropriate basis for setting the materiality as they represent the best measure of the schemes' ability to meet obligations rising from pension liabilities. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit and Governance confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements. This is consistent with the prior year.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £31.7million which represents 75% of planning materiality – consistent with the prior year level. We have considered a number of factors such as the number of errors in prior year and any significant changes in 2022/23 when determining the percentage of performance materiality.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and net asset statement. This was calculated as 5% of planning materiality, which is consistent year on year.

Other uncorrected misstatements, such as reclassifications and misstatements in the disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

04 Scope of our audit

Scope of our audit

Objective and Scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

Financial statement audit:

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards:

- 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; and auditor independence.

Procedures required by the Code:

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

Scope of our audit

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2022/23, we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

ISA315:

ISA (UK) 315 (Revised) Identifying and Assessing the Risks of Material Misstatement, is effective for audits of financial statements for periods beginning on or after 15 December 2021. For the pension fund this will therefore impact on the audit of the financial statements for 2022/23. The new approach required to comply with the ISA will involve more detailed work around identifying relevant IT controls and evaluating the design and implementation of these controls. It also requires auditors to place risks of material misstatement on the 'Spectrum of Risk' as a significant, medium, low or no risk. Based on this assessment, different combinations of assurance (inherent, controls, and substantive) are used to address the risk. The subsequent slides provides more information on ISA315.

Analytics:

We will use our analytics tools to enable us to capture whole populations of your financial data, in particular 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 the prior year we will review internal audit plans and the results of their work where relevant to this engagement. We consider these when designing our overall audit approach and when developing in our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

ISA (UK) 315 (Revised July 2020) *Identifying and Assessing the Risks of Material Misstatement*

Summary of key measures	Impact on Oxfordshire Pension Fund

Summary of key measures

- The revised auditing standard is effective for audits of financial statements for periods beginning on or after 15 December 2021, and adopts ISA 315 (Revised 2019) as issued by the IAASB.
- The revised risk assessment standard sees enhancements and clarifications to: (i) Encourage a more robust risk assessment, thereby promoting more focused responses to the identified risks; (ii) Clarify current requirements to promote consistency in the application of procedures for risk identification; and (iii) Modernize the standard to keep up with the evolving environment in which entities operate, in particular in relation to the Trust's use of information technology.
- The fundamentals of risk assessment have not changed, however, the changes will see additional audit procedures and considerations being made in the following areas to respond to the requirements of the revised standard:
  - How we identify and assess risks based on our understanding of the entity and other risk assessment procedures;
  - How we understand the components of the system of internal control, including new evaluations which apply to each component;
  - The type of controls and process for understanding controls that are relevant to our audit relating to the preparation and posting of journal entries;
  - New requirement Understanding the effect of the Trust's use of IT, including relevant IT general controls, and the identification of IT-related risks; and
  - Evaluating, as an audit team, whether sufficient evidence has been obtained to support the identification and assessment of risks of material misstatement.

Impact on Oxfordshire Pension Fund

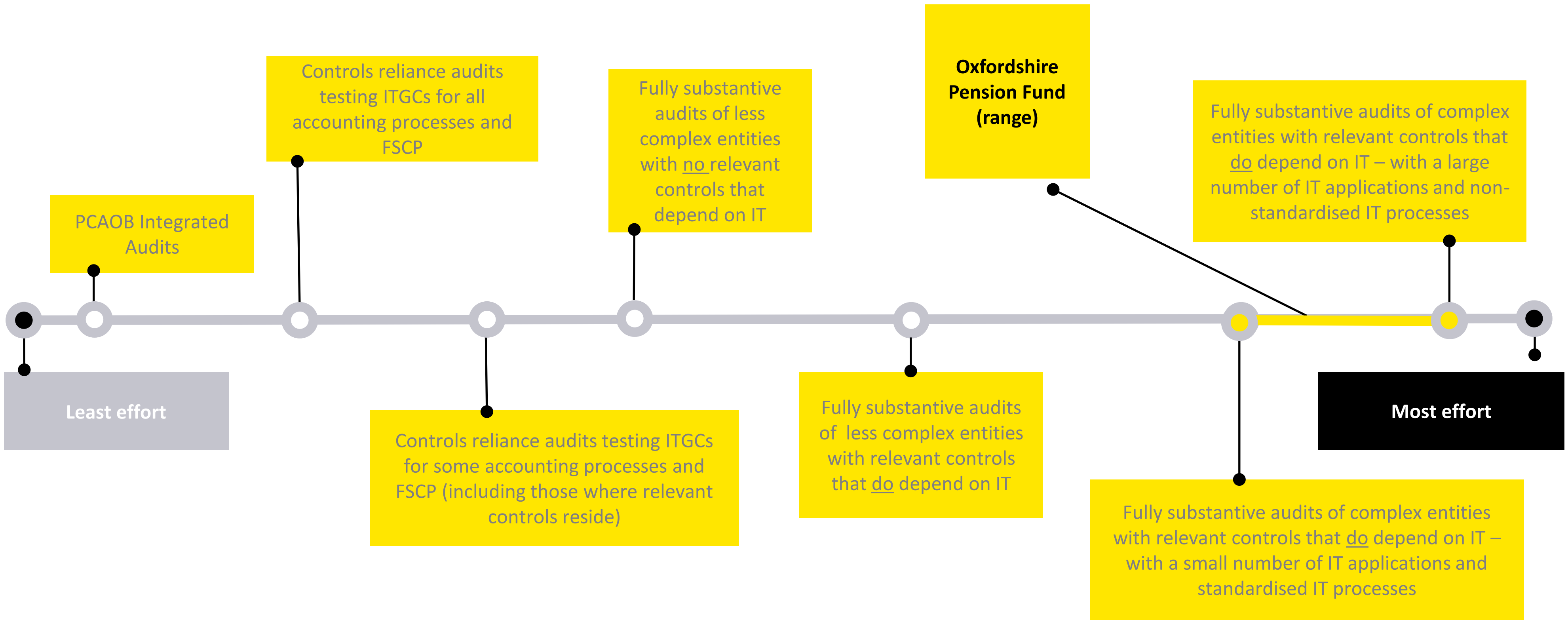
- The revised standard is for auditors and does not put any additional responsibilities or requirements on management or the Audit Committee, however, management and/or the Audit and Governance may experience different conversations, requests or simply have more focused discussions with members of the audit team, including about risk, internal controls, audit quality and our audit strategy.
- For Oxfordshire Pension Fund, the revised standard is effective for this audit of the financial statements for the period ended 31 March 2023.
- We will be required to perform new and additional procedures to understand the Fund's use of IT, the IT processes related to those IT applications relevant to the audit used in the different accounting processes and, where relevant, the IT general controls (ITGCs) that address IT risks in the IT processes and evaluation of their design effectiveness and whether they have been implemented.
  The revised standard does not require an evaluation of the operating effectiveness of ITGCs; it continues to be a strategy decision for the auditor as to whether they intend to rely on IT processes.
- More control observations may be identified and communicated, and the additional evaluations of the components of the system of internal control may help identify deficiencies that are considered to be *significant deficiencies.*
- The new requirement relating to understanding the effect of the use of IT by an audited entity has the greatest potential for additional audit effort, involvement of team members with specialised knowledge of auditing IT, and an upward impact on audit fees.
- We have discussed on the next slides the specific impact of this new requirement on the audit of the Fund.
- The other impacts of the revised standard on our audit strategy are reflected in the relevant sections of this report.

External resources

- FRC Feedback statement and impact assessment
- IAASB Introduction to ISA 315 (Revised 2019) Fact Sheet

Scope of our audit

The graphic below indicates where we anticipate, based on our current understanding, that the audit of Oxfordshire Pension Fund falls on the spectrum of effort as it applies to the new requirements of the revised standard relating to understanding the effect of the use of IT. The level of effort is displayed relative to the circumstances applicable to the Fund and why that level of effort may differ to that required on the audits of entities with different circumstances.



05 Audit team

Audit team

Audit team structure:

Kevin Suter
Lead Audit Partner

Kalthiemah Abrahams
Manager

Diva Bhagi
Senior

Marsel Durgaj
Senior

EY Actuaries

EY Data Analytics

* Key Audit Partner

Use of specialists

Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions disclosure	Management specialist: Hymans Robertson EY specialist: EY Pensions team and PWC Actuary commissioned by NAO
Investment valuation	The Pension Fund's Custodian and Fund Managers

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.

06 Indicative audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2022/23.

From time to time matters may arise that require immediate communication with the Audit and Governance and we will discuss them with the Audit and Governance Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes, including planning procedures	Sep-Nov 2023		
Walkthrough of key systems and processes	Sep-Nov 2023		
Year end audit (substantive procedures and general procedures)	Dec- Feb 2024		
Audit Planning Report presented to the Audit Committee	Jan 2024	Audit and Governance – 10 January 2024	Outline Audit Planning Report
Year end audit(conclusion) Audit Completion procedures	Jan - Feb 2024	Audit and Governance – TBC	Audit Results Report Audit Opinion

07 Independence

Introduction

The FRC Ethical Standard and ISA (UK) 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 integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires 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**
▸ 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.	▸ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose 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/additional services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; 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 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.

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. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we have not identified any threats that would require mitigation safeguards. We therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Pension Fund Examples include 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 or any business relationship.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with any policies that you have approved. At the time of writing, there are no non-audit fees.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

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 part 4.

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

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 the Fund. 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.

Relationships, services and related threats and safeguards

Other threats

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

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

Other communications

EY Transparency Report 2022

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 the reporting period from 2 July 2022 to 30 June 2023, referred to throughout the report as FY22: ey-uk-2023-transparency-report.pdf

08 Appendices

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Department of Levelling up Housing and Communities. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code, the financial reporting requirements set out in the Code of Practice on Local Fund Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2022/23	Planned Fee 2021/22
	£	£
Scale Fee – Code work	25,254	18,563
Work required to address professional and regulatory requirements and scope associated with risk (Note 1)	44,551	51,242
Additional work and associated fees:		
ISA540 – Estimates (Note 2)	974	974
IAS 19 Assurance, including triennial testing to support IAS 26 disclosure and IAS 19 pension liability roll forward (Note 3)	7,500	5,500
ISA 315 implementation (Note 4)	4,000 to 6,000	n/a
Total Planned Fees	82,279 – 84,279	76,279

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;
- Our accounts opinion being unqualified;
- Appropriate quality of documentation is provided by the Pension Fund; and
- The Pension Fund has an 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 the Pension Fund in advance.

Note 1: For both years the scale fee has been re-assessed to take into account the risk profile of the Fund and the increase in regulatory standards. This additional fee has not been agreed but has been highlighted to management and is subject to review and approval by PSAA Ltd. It is based on the same hours as submitted to PSAA since the 2019/20 audit, but adjusted for 2022/23 to take account of the increase in the PSAA's scale fee.

Note 2: We continue to highlight additional fees for the additional requirements of the implementation of ISA540, which have not been incorporated within the updated 2022/23 scale fee.

Note 3: We will not be able to leverage the IAS 19 pension roll forward performed as part of the Council audit in the current year. In addition, testing will be required on the membership numbers due to the triennial valuation as at 31 March 2022. These additional fees are not subject to approval by PSAA.

Note 4: Due to the implementation of ISA315, we have to perform additional risk assessment procedures to understand the entities use of IT applications and controls. See pages 19 & 20.

Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Our Reporting to you

Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Outline audit planning report – January 2024- Audit and Governance Committee
Significant findings from the audit	• 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 • Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee

Required communications with the Audit and Governance (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • 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	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Misstatements	• Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Subsequent events	• Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Fraud	• Enquiries of the audit 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 • Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Governance responsibility	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee

Required communications with the Audit and Governance (continued)

Required communications	What is reported?	Our Reporting to you When and where
Related parties	• Significant matters arising during the audit in connection with the entity's related parties including, when applicable • 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	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • 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 Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: • Relationships between EY, the company and senior management, its affiliates and its connected parties • Services provided by EY that may reasonably bear on the auditors' objectivity and independence • Related safeguards • Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees	Outline audit planning report – January 2024 Audit results report – Feb 2024 (TBC)-Audit and Governance Committee

Required communications with the Audit and Governance (continued)

Required communications	What is reported?	Our Reporting to you When and where
	• A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Internal controls	• Significant deficiencies in internal controls identified during the audit	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee
Fee Reporting	• Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit results report – Feb 2024 (TBC)-Audit and Governance Committee

Additional audit information

Other required procedures during the course of the audit	
Our objective is to form an opinion on the Pension fund financial statements under International Standards on Auditing (UK) as prepared by you in accordance with with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting. Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit and Governance of their responsibilities.	
Our responsibilities required by auditing standards	• Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. • Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. • Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. • Concluding on the appropriateness of management's use of the going concern basis of accounting. • Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. • Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit and Governance reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and Maintaining auditor independence.

Additional audit information (continued)

Other required procedures during the course of the audit (continued)	
Procedures required by the Audit Code	• Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
Other procedures	• We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice
We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.	

Purpose and evaluation of 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 economic decisions of 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.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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.