Audit Plan

Year end 31 March 2014

Oxfordshire Pension Fund

Updated August 2014

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INVESTOR IN PEOPLE

Councillor David Wilmshurst
Chair Audit and Governance Committee
Oxfordshire County Council
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17 September 2014

Dear Committee Members

Audit Plan for Oxfordshire Pension Fund

We are pleased to attach our Audit Plan, which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit and Governance Committee with a basis for reviewing our proposed audit approach and scope for the 2013-14 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 but also to ensure that our audit is aligned with the Committee's service expectations.

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

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

Yours faithfully

Alan Witty
Pp
Baldeep Singh
For and behalf of Ernst & Young LLP
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Contents

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 the Oxfordshire Pension Fund (the Pension Fund) give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 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.

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 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit. We also outline our plans to address these risks.

Details of our audit process and strategy are set out in Section 3.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2014.

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 level of net assets. We also consider qualitative issues, such as the impact on the public's and other stakeholder understanding of your accounts and the information contained. Our audit is designed to identify errors above materiality.

2. Financial Statement Risks

Our assessment of the financial statement risks facing the Pension Fund is based on our knowledge of the entity's operations and discussion with members and officers. Other than the presumed risk of management override we have not identified any other significant risks.

We aim to validate these with you at our meeting.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
As identified in ISA (UK & Ireland) 240, management is in a unique position to perpetrate fraud. This is because of its ability to manipulate accounting records (directly or indirectly) and to 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.	Our approach will focus on: ► testing the appropriateness of journal entries in the general ledger and other adjustments made in the preparation of the financial statements; ► reviewing accounting estimates for evidence of management bias; and ► evaluating the business rationale for significant unusual transactions.

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Respective responsibilities in relation to fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has 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 caused by either error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility of a material misstatement due to fraud, and design the appropriate procedures to consider such a risk.

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

- Identifying fraud risks during the planning stages.
- Inquiry of management about the risks of fraud and controls 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 risks.
- Performing mandatory procedures, regardless of specifically identified fraud risks.

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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 principal objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, your financial statements.

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;
- Where relevant, 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 Pension Fund; and
- Substantive tests of detail of transactions and amounts.

Processes

We initially identify the key financial processes which an entity uses in the preparation of its financial statements. For the Pension Fund the key processes that we have identified comprise:

- Benefits Payable
- Contributions receivable
- Investments
- Cash and bank processes; and
- Financial Statements Close Process

Having identified the key processes we document the main controls and perform a walkthrough of the controls to confirm our understanding of their operation. We are planning to follow a substantive testing strategy for the identified processes.

We will also undertake work in accordance with our IAS 19 protocol to provide information on which relevant admitted bodies of the Pension Fund can place reliance when preparing their financial statements.

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.

Where relevant, we will use the work of internal audit to inform our assessment of the Pension Fund's overall control environment.

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Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of 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.

Use of experts

In producing the financial statements, management will place reliance on the work undertaken by experts, We anticipate being able to undertake sufficient procedures such that we will be able to place reliance on the work undertaken by management's experts.

We also anticipate relying on the work of the experts commissioned by the Audit Commission in respect of the work undertaken by the pension scheme actuary appointed by the Pension Fund.

We will utilise specialist EY resource, as necessary, to help us to form a view on judgments made in the financial statements. Our plan currently includes the involvement of specialists in pensions.

Mandatory procedures required by auditing standards

In addition to the financial statement risks outlined in section 2, we must 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.

- ► Addressing the risk of fraud and error.
- ► Significant disclosures included in the financial statements, in particular disclosures relating to financial instruments.
- ► 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.
- ► Reviewing, and where appropriate, examining evidence that is relevant to the Pension Fund's corporate performance management and financial management arrangements and reporting on these arrangements

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 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 have determined that overall materiality for the financial statements of the Pension Fund is £16m based on 1% of net assets.

We will communicate uncorrected audit misstatements greater than £816,000 to you.

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 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.

3.4 Fees

The Audit Commission has published a scale fee for all authorities. This 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 the Oxfordshire Pension Fund is £24,108.

3.5 Your audit team

The engagement team is led by Peter O'Neill who leads EY's pension's assurance team. Peter is supported by Alan Witty who is responsible for the day-to-day direction of audit work, and who is the key point of contact for your finance and pension teams. Peter has recently retired and has been replaced by Baldeep Singh. Baldeep will be assuming Peter's local authority pension responsibilities and so will oversee your audit to conclusion.

Maria Grindley leads our overall engagement with Oxfordshire County Council and our relationship with the Audit and Governance Committee.

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 committee cycle in 2014. 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 Pension Fund Committee in September 2014, incorporating the outputs from our year-end procedures. From time to time matters may arise that require immediate communication with the Audit & Governance Committee and we will discuss with the Committee Chair as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter to communicate to the Audit & Governance Committee and external stakeholders, including members of the public, key issues arising from our work.

Audit phase	Timetable	Audit and Governance Committee timetable	Deliverables
High level planning:	December 2013 / January 2014	March 2013	Audit Fee Letter
Risk assessment and setting of scopes	December/ January	April 2014 Committee	Audit Plan
Testing of routine processes and controls	February/ March 2014		
Year-end audit	July – September	September 2014	Report to those charged with governance Audit report (including our opinion on the financial statements)
Reporting	November	November	Annual Audit Letter (County Council)

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
► The principal threats, if any, to objectivity and independence identified by 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.	► 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.

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 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 EY is independent and the objectivity and independence of Baldeep Singh, your audit engagement partner and the audit engagement team have not been compromised.

4.3 Other required communications

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 28 June 2013 and can be found here:

http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013-14	Actual Fee 2012-13	Explanation of variance
	£	£	
Total Audit Fee – Code work	**24,108**	**24,108**	
Non-audit work (provide details)	0	0	

Indicative fee

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

► The level of risk in relation to the audit of accounts in consistent with that in the prior year

► You have an effective control environment

► Officers meet the agreed timetable of deliverables

► Appropriate quality of documentation is provided by the Pension Fund

► We are able to use the work of internal audit to inform our understanding of your internal control environment;

► Our accounts opinion being unqualified.

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 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 ► 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 ► 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 ► 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 ► 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: ► 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 ► 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 ► 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	Report to those charged with governance

Required communication	Reference
► 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	
Independence Communication of all significant facts and matters that bear on EY's 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	Audit Plan Report to those charged with governance
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	Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
Fee Information ► Breakdown of fee information at the agreement of the initial audit plan ► Breakdown of fee information at the completion of the audit	Annual Plan Report to those charged with governance Annual Audit Letter

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