

Oxfordshire Pension Fund

Pension Fund/Audit and Governance Committee Summary

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

4 September 2015



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Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance. We regard Oxfordshire County Council's Audit and Governance Committee as the member forum ultimately responsible for the governance of the Oxfordshire Pension Fund. However we also report our findings to the Pension Fund Committee ahead of the Audit and Governance Committee meeting.

The Code requires us to report on the work we have carried out to discharge our statutory audit responsibilities, together with any governance issues identified. This report summarises the findings from the 2014/2015 audit, which is substantially complete. It includes the messages arising from our audit of your financial statements.

Financial statements

As at 4 September 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, as we only have a few matters to communicate, that the Pension Fund has prepared its financial statements to a good standard.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council's responsibilities

- ▶ **Oxfordshire County Council** as the administering authority of the Pension Fund is responsible for preparing and publishing its Statement of Accounts which includes the financial statements of the Pension Fund.
- ▶ The Council is also required to prepare a separate Annual Report and Statement of Accounts for the Pension Fund.

Purpose of our work

- ▶ Our audit was designed to:
 - ▶ **express an opinion on the 2014/2015 financial statements of the Pension Fund, and**
 - ▶ **report on whether information in the Annual Report is consistent with the financial statements**

In addition, this report contains our findings on significant deficiencies in internal control or the Pension Fund's accounting policies and key judgments.

This report is intended solely for the information and use of the Pension Fund. It is not intended to be, and should not be, used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

We identified the following audit risks during the planning phase of our audit, and reported these to you in our Audit Plan. We set out here how we have gained audit assurance over those issues.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of your controls relevant to each risk and assess the design and implementation of the relevant controls.

Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Significant audit risks (including fraud risks)</p> <p>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 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.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ reviewing accounting estimates for evidence of bias, specifically the approach to valuation of investments; and ▶ evaluating the business rationale for significant unusual transactions. 	<p>All our planned procedures are complete. We have no matters to bring to your attention based on our testing.</p>

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Pension Fund and Audit Committee meetings:
 - ▶ Receipt of a Letter of Representation
 - ▶ Final partner review procedures
 - ▶ Final audit closing procedures and review procedures.
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ Our audit has identified one misstatement in the Pension Fund's draft financial statements:
 - ▶ The December 2014 quarterly reports for the Partners Group private equity investments, adjusted for relevant cash flows during the last quarter, were used to value the investments at year-end instead of the year-end reports, understating investments by £2.665m.

Corrected misstatements

- ▶ Our audit identified a small number of disclosure errors which we highlighted to management for amendment. We do not consider any of these significant and therefore we have not provided further detail of these amendments.

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Pension Fund's financial reporting process including the following:
 - ▶ Qualitative aspects of accounting practices; estimates and disclosures;
 - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance e.g. issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
 - ▶ Any significant difficulties encountered during the audit; and
 - ▶ Other audit matters of governance interest

We have one matter we wish to report:

- We found no evidence that bank reconciliations are reviewed by managers: although we found no issues, this is a key control for picking up errors promptly. Two very small bank accounts were not reconciled. The cash book is also prepared from the bank statements.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
Planning Materiality	We determined planning materiality to be £18.5 million (2014: £16.3 million), which is 1% of net assets reported in the 2014/15 accounts of £1,845 million We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.
Tolerable Error	We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion. We set the level of tolerable error at the upper level because we found no material adjustments in the 2013/14 audit.
Reporting Threshold	We agreed with the Pension Fund and Audit and Governance Committees that we would report to the Committee all audit differences in excess of £0.8 million (2014: £0.8 million),

Financial statements audit – internal control and written representations

Internal control

- ▶ It is the responsibility of the Council and the Pension Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Pension Fund has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council and the Pension Fund only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters. We are not requesting any specific representations over and above the standard ones.

Section 5

Independence and audit fees

Independence and audit fees

Independence

- ▶ We have reassessed our independence since we confirmed in our Audit Plan dated 10 April 2015 that there were no issues. Two team members confirmed that they, or a family member, were deferred members of the Pension Fund. As required by our internal processes, these team members did no further work on this engagement.
- ▶ We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and us. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do this at the meetings of the Pension Fund Committee on 4 September 2015 and the Audit and Governance Committee on 16 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 10 April 2015.

Audit fees

- ▶ The table below sets out the scale fee and our final proposed audit fees.

	Proposed final fee 2014/2015	Scale fee 2014/2015
	£	£
Audit Fee: Code work	24,108	24,108

- ▶ Our actual fee is in line with the agreed fee at this point in time, subject to the satisfactory clearance of the outstanding audit work.
- ▶ We confirm that we have not undertaken any non-audit work outside the Audit Commission's Audit Code requirements.

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