

# Essex Pension Fund

Pension Fund/Audit Committee Summary

For the year ended 31 March 2015

Draft Audit Results Report – ISA (UK and Ireland) 260

16 September 2015 and 21 September 2015 Meetings



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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 Essex County Council's Audit Committee as the member forum ultimately responsible for the governance of the Essex Pension Fund, however we also report our findings to the Pension Fund Committee ahead of the Audit Committee meeting. The Code require 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 of 25 August 2015, we expect to issue an unqualified opinion on the financial statements. Our audit results demonstrate, through the few matters we have 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

- ▶ Essex 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

## Publication on electronic media

The Council is responsible for the accurate presentation of the financial statements, audit report thereon and other reports submitted in relation to the audit and for establishing security and controls over them in order to ensure the continued integrity of the information presented. The examination of the controls over electronic presentation of audited financial information and reports by the auditor on the Council's web-site is beyond the scope of the audit of the financial statements

## Purpose of our work

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

In addition, this report contains our findings related to the areas of audit emphasis and any views 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. Here, we set out 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 the entity's 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><b>Significant audit risks (including fraud risks)</b></p>		
<p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records 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.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;</li> <li>▶ Reviewing accounting estimates for evidence of bias, specifically the approach to valuation of investments, and</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> </ul>	<p>All our planned procedures are complete. We have no matters to bring to your attention based on our testing. Our work did not identify any instances of fraud, error or management bias.</p>

# Addressing audit risks – other audit risks

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

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
<p><b>Other audit risks</b></p> <p>The Council changed its pension’s administration system which processes payroll from Axis to Civica part way through 2014/15.</p>	<ul style="list-style-type: none"> <li>▶ We reviewed the work undertaken by the internal audit team and management on the migration of data from the old to new system .We carried out the procedures necessary for us to rely on their work.</li> <li>▶ We considered the work done by Internal Audit on controls testing on the new system (which gave good assurance) and did not identify any issues.</li> <li>▶ We did not rely on controls testing at year end as previously planned, as we determined it was more efficient to undertake substantive testing at year end. We did however walkthrough the expected process and controls within the new system and did not identify any issues.</li> <li>▶ We undertook year end substantive testing on the payroll figures in the accounts, including predictive analytical review and testing and agreement of individual’s pay and lump sum payments to the payroll system and prime documentation.</li> </ul>	<p>Our work did not identify any issues with the migration of data or the payroll figures disclosed in the Pension Fund’s accounts.</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
  - ▶ Receipt of the Annual Report for checking for consistency with the financial statements
  - ▶ Partner review of audit work and financial statements
  - ▶ Final audit closing procedures .
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

## Uncorrected misstatements

- ▶ We have identified no misstatements within the draft financial statements, which management has chosen not to adjust.

## Corrected misstatements

- ▶ Our audit identified a small number of disclosure errors which were highlighted to management for amendment. These have been corrected during the course of our work, the key ones being:
  - ▶ The Pension Fund chose to voluntarily re-state the prior year comparators relating to management expenses following CIPFA guidance which recommended this as best practice for 2014/15. The impact being on the fund account and Notes 10 and 11 in the pension funds accounts. We reviewed the presentation of the disclosures relating to these changes and agreed further changes to ensure greater clarity to the reader of the accounts as to the reconciliation to the prior year figures and the reason for the change.
  - ▶ In their classification of financial instrument note, Essex Pension Fund incorrectly disclosed total debtors and creditors as they had not made any distinction between statutory and contractual debtors and creditors.

This was inconsistent with the Code which states that only contractual amounts are financial instruments. In the prior year CIPFA example accounts, the financial instruments incorrectly included statutory debtors and creditors, this has been corrected in the 14/15 CIPFA example accounts, but understandably led to some confusion around the correct disclosure. This has been amended in the pension funds accounts and an explanation added for the change.

## 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 your accounting practices; estimates and disclosures;
  - ▶ Matters specifically required by other auditing standards to be communicated to those charged with governance. For example, 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
- ▶ A revised estimation approach has been used for the valuation figures for alternative investments in the accounts. This has resulted in differences between the figures included in the accounts as compared to the final year end valuation provided by the Fund Managers.

Management have explained this is due to the timing of the valuations used. To bring forward the production of the pension fund accounts in preparation for the earlier deadlines in 2017/18, the valuation figures for these investments are included in the accounts based on December 2014 custodian valuations adjusted for known cash movements or drawdowns up to 31 March 2015. This approach has been used as these fund managers often take considerable time to provide their year end valuation.

While the final year end valuations differ from the figures used, these differences are not material, either individually or in total.

# 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	<p>We determined planning materiality to be £49.3 million (2014: £43.4 million), which is 1% of net assets reported in the 2014/15 accounts of £4,932 million</p> <p>We consider net assets to be one of the principal considerations for stakeholders in assessing the financial performance of the Pension Fund.</p>
Tolerable Error	<p>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.</p> <p>We set the level of tolerable error at the upper level because there were no material adjustments found in the 2013/14 audit.</p>
Reporting Threshold	<p>We agreed with the Pension Fund and Audit Committees that we would report to the Committee all audit differences in excess of £2.5 million (2014: £2.2 million),</p>

# 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. There were no additional specific representations required other than the standard representations.

**Section 5**

# **Independence and audit fees**

# Independence and audit fees

## Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 2 March 2015.
- ▶ 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 ourselves. 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 so at the forthcoming meetings of the Pension Fund and Audit Committees on 16 and 21 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 2 March 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	31,266	31,266

- ▶ 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 of the Audit Commission's Audit Code requirements.

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