

Cambridgeshire Pension Fund

Pension Fund Committee

20 December 2023

Report by: Head of Pensions

Subject: Ernst & Young Audit Plan for Cambridgeshire Pension Fund for Year Ended 31 March 2023

Purpose of the Report: To present the Audit Plan from Ernst & Young

Recommendations: The Pension Fund Committee:

a) Note the Audit Plan for year ended 31 March 2023 and the presentation by Ernst and Young

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1. Executive summary

- 1.1 Ernst & Young (EY) act as the Cambridgeshire Pension Fund's external auditors. They have produced a plan of the audit of the Cambridgeshire Pension Fund for the year ended 31 March 2023, which is presented to the Pension Fund Committee to note.
- 1.2 The Audit Plan sets out the proposed audit approach and scope for the 2022-23 audit of the Fund and is reviewed by the Audit and Accounts Committee.

2. Report background

- 2.1 Ernst & Young (EY) act as the Cambridgeshire Pension Fund's external auditors. They have produced their plan for the 2022-23 audit of the Cambridgeshire Pension Fund.
- 2.2 The Audit Plan was reviewed by the Audit and Accounts Committee at its meeting of 12 September 2023.
- 2.3 The Pension Fund's Statement of Accounts (SOA) form part of the Council's Statement of Accounts. These are audited by the Council's external auditor EY. The auditor confirms whether, in their opinion, the SOA reflect a true and fair view of the financial position of the authority (and the Fund within it) for the financial year 1 April 2022 to 31 March 2023 and that the SOA is free from material misstatement.

3. Content, Responsibilities and timeline

- 3.1 EY have been appointed as Independent External Auditors to provide an audit opinion on:

3.1.1 whether the financial statements of Cambridgeshire Pension Fund give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2023; and

3.1.2 the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of Cambridgeshire County Council.

3.2 EY have produced an audit plan, setting out identified audit risks, expected materiality levels, the scope of their audit, the team, and the planned delivery of the audit process.

3.3 Page 13 of the accompanying report identifies the key risks and areas of auditor focus, detailing EY's planned approach to these risk areas. These, along with the Fund's approach are summarised in the following table.

Risk/area of focus	Audit approach	Fund approach
Misstatements due to fraud or error	<ul style="list-style-type: none"> Identify fraud risks at planning stage. Inquire of management how risks are mitigated by controls. Understand the level of oversight within processes. Consider effectiveness of controls Use appropriate audit strategy to address risks identified. Perform mandatory procedures, including detailed testing. 	<ul style="list-style-type: none"> Ensure process notes include identified risks. Provide written process notes which detail controls.
Unusual Investments – Cambridge and Counties Bank (CCB)	<ul style="list-style-type: none"> Review Grant Thornton's external valuation of Cambridge and Counties Bank and consider appropriateness of assumptions used. Ensure values used are in line with relevant accounting policies. Test accounting entries in the Statement of Accounts are consistent with valuation. 	<ul style="list-style-type: none"> Instruct Grant Thornton to provide a valuation report for Cambridge and Counties Bank and make this, and supporting information, available to the auditor. Provide working papers demonstrating the value used at the year end and the valuation methodology.
Valuation of Level 3 investments (unquoted investments)	<ul style="list-style-type: none"> Assess the competence of management experts. Review basis of valuation and assess the appropriateness of the valuation methods. Review latest audited accounts for level 3 investments. Perform analytical procedures and checking the valuation output for reasonableness. Obtain internal control reports from fund managers. Review investment valuation disclosures to verify significant 	<ul style="list-style-type: none"> Provide working papers demonstrating the value used at the year end and the valuation methodology. Provide quarterly reconciliation reports. Liaise with Investment Managers to provide information to auditors on a timely basis.

Risk/area of focus	Audit approach	Fund approach
	judgements have been appropriately made.	
Valuation of Level 2 investments (Pooled Investments)	<ul style="list-style-type: none"> • Assess the competence of management experts. • Review basis of valuation and assess the appropriateness of the valuation methods. • Review observable data points used in the calculation of the investment valuation. • Obtain internal control reports from fund managers. • Review investment valuation disclosures to verify significant judgements have been appropriately made. 	<ul style="list-style-type: none"> • Provide working papers demonstrating the value used at the year end and the valuation methodology. • Provide quarterly reconciliation reports. • Liaise with Investment Managers to provide information to auditors on a timely basis.
IAS26 Disclosure – Actuarial Present Value of Promised Retirement Benefits	<ul style="list-style-type: none"> • Assess competence of management experts (Hymans) • Review IAS26 approach applied by the actuary are reasonable and compliant with IAS26. • Ensure IAS26 disclosure is in line with relevant standards and consistent. • Reconciliation of data provided to actuary for the triennial valuation • Testing of 25 members per report 	<ul style="list-style-type: none"> • Ensure process notes include identified risks. • Provide written process notes which detail controls.

3.4 Page 18 of the accompanying report sets out the planned materiality levels for the audit, based on 1% of net assets of £4.2bn, which are planned to be:

Audit Area	Materiality
Planning Materiality	£42m
Performance Materiality	£31.5m
Audit Differences	£2.1m

3.5 Page 27 of the accompanying report sets out the proposed timeline for delivery of the audit. The key planned milestones are:

Milestone	Planned dates	Status
Planning	July – August 2023	Completed
Report audit plan	September 2023	Completed
Year end Audit	August -September 2023	Completed
Audit Results Report	November 2023	Completed

4. Relevant Pension Fund Objectives

- 4.1 To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
- 4.2 To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
- 4.3 To ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
- 4.4 To continually monitor and measure clearly articulated objectives through business planning.
- 4.5 To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
- 4.6 To provide scheme members with up-to-date information about the scheme in order that they can make informed decisions about their benefits.
- 4.7 To seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.

5. Finance & Resources Implications

- 5.1 None, this paper is for information only.

6. Risk Management

- 6.1 The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below -

Risk No.	Risk	Residual risk rating
4	Contributions to the Fund are not received on the correct date and/or for the correct amount	Amber
5	Fund assets are not sufficient to meet obligations and liabilities.	Amber
7	Information may not be provided to stakeholders as required	Green
9	Those charged with governance are unable to fulfil their responsibilities effectively	Green
15	Custody arrangements may not be sufficient to safeguard Pension Fund assets.	Green
17	Failure to administer the scheme in line with regulations and guidance.	Green

Risk No.	Risk	Residual risk rating
19	Pension Fund investments may not be accurately valued.	Green
25	Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

The Fund's full risk register can be found on the Fund's website at the following link:

<https://pensions.northamptonshire.gov.uk/governance/key-documents/cambridgeshire/>

7. Communication Implications

7.1 This information only paper does not require any further communication activities.

8. Legal Implications

8.1 No material issues have been identified which may give rise to legal liability and/or risk from an administering authority perspective.

9. Consultation with Key Advisers

9.1 The Pension Fund Accounts are produced utilising information and advice provided by Investment Managers, the Fund's Custodian Northern Trust and the Fund's Actuary, Hymans Robertson.

9.2 Squire Patton Boggs conducted a review of the paper for legal implications.

10. Alternative Options Considered

10.1 Not applicable.

11. Background Papers

11.1 Not applicable.

12. Appendices

12.1 Appendix A – Audit Plan 2022-23

Checklist of Key Approvals

Has this report been cleared by Chief Finance Officer/Section 151 Officer? 29/11/2023

Has this report been cleared by Head of Pensions? 17/11/2023

Has this report been cleared by Monitoring Officer? 28/11/2023