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Date: 15 July 2020

Dear Member

GOVERNANCE AND AUDIT COMMITTEE - TUESDAY, 21 JULY 2020

I am now able to enclose, for consideration at next Tuesday, 21 July 2020 meeting of the Governance and Audit Committee, the following report that was unavailable when the agenda was printed.

Agenda Item No

8 **External Audit Interim Findings for Kent Superannuation Fund (Pages 1 - 14)**

Yours sincerely

A handwritten signature in black ink, appearing to read 'B. Watts', is written over a faint, illegible printed name.

Benjamin Watts
General Counsel

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The Interim Audit Findings for Kent Pension Fund

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Year ended 31 March 2020
21 July 2020



Agenda Item 8

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Appendices
A. Audit adjustments

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of Kent Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Pension Fund. The Pension Investments team have all been working from home since the outbreak of the pandemic, however they have been able to continue with business as usual, as they have been able to access systems and complete meetings on-line.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit plan in July 2020. In that plan we reported an additional financial statement risk in respect of Covid -19. Further detail is set out on page 5.</p> <p>Restrictions for non-essential travel has meant both Pension Fund and audit staff have had to deal with a number of audit challenges, including new remote access working arrangements i.e. remote accessing financial systems, video calling and remotely observing information produced by the entity. The audit has, and continues to be delivered remotely.</p>
Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. 	<p>Our audit work has been undertaken remotely during July . Our current findings are summarised on page 4. We have, as yet, identified no adjustments to the financial statements that impact on the Pension Fund's reported financial position. The only audit adjustments relate to disclosure adjustments, which are detailed in Appendix B.</p> <p>Our work is currently ongoing and there are no matters of which we are aware that would require material changes to the financial statements at present. As at 14th July 2020 there are the following outstanding matters;</p> <ul style="list-style-type: none"> - completion of journals, normal benefits, membership data and investments testing; - receipt of a small number of internal controls / service auditor reports and audited financial statements for investments; - Completion of review of disclosures in the financial statements; - Consideration of the transactions and valuation related to the Woodford investment fund - receipt of management representation letter; - receipt and review of the Annual Report; and - review of the final set of financial statements.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the Pension Fund team and other staff during these unprecedented times.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

In our Audit Plan, we identified a financial statement risk relating to the Covid-19 pandemic are currently completing additional procedures to review how the Pension Fund has addressed the impact of this, it's working arrangements, and we have also considered the impacts on the year-end investment valuations. As part of our review we consider whether suitable disclosures have been prepared in relation to Covid-19.

Conclusion

Our work is currently ongoing and there are no matters of which we are aware that would require material changes to the financial statements at present.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels have been updated from those reported in our audit plan as the planning materiality was based on prior year financial statements and we have updated these on receipt of the draft financial statements..

	Pension Fund Amount (£k)
Materiality for the financial statements	57,000
Performance materiality	39,900
Trivial matters	2,850

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	Covid-19	<p>Auditor commentary .</p> <p>We have:</p> <ul style="list-style-type: none"> worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund’s ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. The draft financial statements were provided on 31 May 2020; evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; evaluated whether sufficient audit evidence could be obtained through remote technology; evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the asset valuations ; evaluated management’s assumptions that underpin the revised financial forecasts and the impact on management’s going concern assessment; and discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. <p>We will discuss with management the level of estimation in valuation, especially Level 3 valuations and whether there are adequate disclosures in relation to this risk.</p>
2	The revenue cycle includes fraudulent transactions (rebutted)	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted. Therefore we do not consider this to be a significant risk for Kent Pension Fund.</p> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
3	Management override of controls	<p>Auditor commentary</p> <p>We have undertaken work to:</p> <ul style="list-style-type: none"> evaluate the design effectiveness of management controls over journals analyse the journals listing and determine the criteria for selecting high risk unusual journals test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our audit work has currently not identified any issues in respect of management override of controls to date. Our journals and estimation work is ongoing, so we have not yet concluded on this aspect of the review.</p>

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Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	Valuation of Level 3 Investments (Annual revaluation)	<p>Auditor commentary</p> <p>We have undertaken work to:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers and the custodian • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available review investment manager service auditor report on design effectiveness of internal controls. <p>We are in the process of reviewing and challenging investment valuations, particularly the level 3 investment valuations as these are inherently more complex. Our work in this area is ongoing.</p>
5	Valuation of Directly Held Property (Level 2 Investment) Annual valuation	<p>Auditor commentary</p> <p>We have undertaken work to:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • independently request year-end confirmations from investment managers and the custodian • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm or investment manager the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding and engage our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation. • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records • where available review investment manager service auditor report on design effectiveness of internal controls. <p>Our audit work in this area is ongoing and we are not able to conclude at this time in respect of the valuation of Level 2 investments.</p>

Significant findings - Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Officers have a reasonable expectation that the Fund will continue for the foreseeable future. Members concur with this view. For this reason, the Fund continue to adopt the going concern basis in preparing the financial statements.

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Work performed

Management have prepared the financial statements on a going concern basis.

Auditor commentary

- As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Pension Fund's ability to continue as a going concern” (ISA (UK) 570).
- Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We have reviewed management's assessment of the going concern assumption and any material uncertainties, and evaluated the disclosures in the financial statements.

Auditor commentary

- Our audit work has not identified any issues in relation to management's going concern assessment however this work is ongoing and we are not able to conclude at this time

Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Level 3 investments	<p>The Pension Fund has investments in “hard to value” funds that in total are valued on the balance sheet as at 31 March 2020 at £231.45m.</p> <p>These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management, fund managers and the custodian use other means to assess the value, e.g. audited accounts. The value of the investments in this category has increased by £81.39m in 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> Relied on the fund manager as a management expert and consider their qualifications and expertise makes them a reliable source of assurance; Relied on the custodian as a management expert and consider their qualifications and expertise makes them a reliable source of assurance; Tested the valuation by re-performing the basis of the valuation; and Reviewed any assumptions used in the calculation. <p>Our work is currently ongoing.</p>	TBC
Level 2 investment	<p>The Pension Fund have investments with observable inputs that are not quoted investments, that, in total, are valued on the balance sheet as at 31 March 2020 at £3,455.2659m.</p> <p>In order to determine the value, management, fund managers and the custodian use observable market data and other valuation techniques to assess their value. The value of the investments in this category has increased by £92.501m in 2019/20.</p>	<p>We have:</p> <ul style="list-style-type: none"> Relied on the custodian as a management expert and consider their qualifications and expertise makes them a reliable source of assurance; Tested the valuation; and Reviewed any assumptions used in the calculation <p>Our work is currently ongoing.</p>	TBC
Actuarial Present Value of Promised Retirement Benefits	<p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£3,377m) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>We have:</p> <ul style="list-style-type: none"> assessed the competence, capabilities and objectivity of the actuary who carried out the Authority’s pension fund valuation; assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; tested the consistency of disclosures with the actuarial report from the actuary; and undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor’s expert) and performing any additional procedures suggested within the report. <p>Our work is currently ongoing however work completed to date has not identified any issues over the reasonableness of the Actuarial Present Value of Promised Retirement Benefits.</p>	TBC

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management’s estimation process contains assumptions we consider cautious
- We consider management’s process and key assumptions to be reasonable

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> A letter of representation will be requested from the Pension Fund, once the template letter is available from our central team. No specific representations are currently planned, but this is dependent on the completion of our level 3 investments review.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests for bank balances. This permission was granted and the request was sent and returned with positive confirmation. We obtained confirmations from the custodian and fund managers where required, relating to control reports and investment balances.

Other communication requirements

	Issue	Commentary
6	Disclosures	<ul style="list-style-type: none">• Our review found no material omissions in the financial statements. We are finalising this review to ensure they are fully compliant with accounting standards requirements.
7	Audit evidence and explanations/significant difficulties	<ul style="list-style-type: none">• All information and explanations requested from management was provided.• We are awaiting some information from fund managers.
8	Matters on which we report by exception	<ul style="list-style-type: none">• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements.• Due to statutory deadlines the Pension Fund Annual Report is not required to be published until August 2020 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence, ethics and fees

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Details of fees charged are included below.

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related			
Pension Fund audit	37,037	None	N/A – no threats to our independence.
Non-audit related			
IAS 19 procedures for other bodies admitted to the pension fund	11,000	None	N/A – no threats to our independence. Audit fee is only a small percentage of the total audit fee.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee. None of the services provided are subject to contingent fees.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted and unadjusted misstatements

To date, there are no adjusted or unadjusted misstatements that impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Misclassification and disclosure changes

To date, there are no misclassification and disclosure changes identified to date during the audit which have been made in the final set of financial statements.



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