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Ask for: Geoff Rudd  
Your Ref:  
Our Ref:  
Date: 1 July 2009

Dear Member

**SUPERANNUATION FUND COMMITTEE - FRIDAY, 3 JULY 2009**

I am now able to enclose, for consideration for the Superannuation Fund Committee on Friday, 3 July 2009, the following report that was unavailable when the agenda was printed.

**Agenda No    Item**

1.    **2008-09 Accounts (Pages 1 - 10)**

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Sass', written in a cursive style.

**Peter Sass**  
**Head of Democratic Services & Local Leadership**

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# Superannuation Fund Audit

Kent County Council

Audit 2008/09

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# Key messages

**This report summarises the findings from the 2008/09 audit of the Superannuation Fund which is substantially complete. Subject to satisfactory clearance of work, we plan to issue an unqualified opinion in July 2009.**

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## Financial statements

- 1 The Fund's financial statements were submitted for audit on the 5 June 2009 and were of a good quality. The audit has identified a small number of errors and omissions that officers have corrected within the accounts presented for members on 3 July 2009. In our opinion none of these need to be brought to your attention.
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## Audit opinion

- 2 The 2008/09 audit of the financial statements is substantially complete. Outstanding items at the time of writing (29 June 2009) are detailed in paragraph 6. Subject to satisfactory clearance of these matters, we plan to issue an unqualified opinion in July 2009.
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## Next steps

- 3 We ask the Superannuation Fund Committee to consider the matters raised in the report as part of its review of the financial statements.

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# Financial statements

- 4 The financial statements are important documents by which the Council accounts for its stewardship of public funds. Members have final responsibility for these statements. It is important that consideration is given to findings from the audit as part of the adoption of the financial statements.
- 5 The Fund's financial statements are an integral part of Kent County Council's financial statements. We have previously reported the outcome of the audit of the Council's financial statements within our Annual Governance Report to the Governance and Audit Committee on 30 June 2009. This report outlines the specific findings of our work on the Fund's financial statements for the year ended 31 March 2009.
- 6 The Fund's draft statements were presented for audit on the 5 June 2009, five weeks after the end of the financial year which is a positive achievement. Officers have been responsive to audit enquiries and this has allowed us to have completed the majority of our planned work by the end of June 2009. Inevitably, given the tight timelines, there are some matters that remain to be completed. Key items outstanding at the time of writing this report are:
  - completion of testing of deeds relating to the Fund's property portfolio;
  - review of all related party transaction declarations from officers and members;
  - to review any further developments relating to deposits made with Icelandic banks; and
  - audit of the draft Fund annual report 2008/09.
- 7 In planning our audit, we identified potential specific risks and areas of judgement that we would focus on during the audit. We report to you at paragraph 9 the findings of our work against those potential planning risks.
- 8 In addition, auditing standards require us to report to you:
  - the draft representation letter which we are asking management and you to sign;
  - our views about your accounting practices and financial reporting;
  - errors in the financial statements;
  - any expected modification to our audit report;
  - weaknesses in internal control; and
  - certain other matters.

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## Key areas of judgement and audit risk

- 9 In February 2009, we reported the planned audit testing for the Fund's accounts to the Superannuation Fund Committee. Set out below for members' information is a summary of the results against the planned testing. Our overall conclusion is that the results were satisfactory.
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**Table 1 Key areas of judgement and audit risk**

Issue or risk	Finding
Compliance with the Statement of Recommended Practice (SoRP) relating to the Fund's financial statements.	The accounts submitted for audit comply with recommended practice.
Collection of contributions, payment of benefits and transfers in and out of the Fund.	Our audit work confirmed that these transactions are completely and accurately included in the financial statements.
There is a change in the SoRP requirement about valuing the investment portfolio. We need to ensure this has been reflected in the accounts.	We concluded that the net assets of the Fund are fairly stated in the financial statements.
Some of the Fund's cash was invested in Icelandic banks. We need to consider how this is now reflected in the superannuation fund accounts given the collapse of these banks.	<p>The Council invested money on behalf of the Fund. Consequently the Fund has to bear some of the impairment resulting from the Icelandic Investments at risk. We have confirmed that the cash invested by the Council on behalf of the Fund has been accounted for correctly.</p> <p>More generally, the Council pools its own excess cash and that of the Fund when making investments. Following a review the Council identified that the Fund had been credited with interest at the London Inter bank Bid Rate (LIBID) rate rather than the actual rate of interest earned for its cash invested in 2007/08. It has corrected this in 2008/9. Interest at actual rate was calculated from September 2007 when there was a significant change in policy to increase cash holdings. In the 2008/9 accounts the Fund has been credited with the difference between actual interest rates on investments and LIBID, increasing income to the Fund by £177k for 2007/8 and £1.3m for 2008/9.</p>

Issue or risk	Finding
Compliance with the Statement of Recommended Practice (SoRP) relating to the Fund's financial statements.	The accounts submitted for audit comply with recommended practice.
Collection of contributions, payment of benefits and transfers in and out of the Fund.	Our audit work confirmed that these transactions are completely and accurately included in the financial statements.
There is a change in the SoRP requirement about valuing the investment portfolio. We need to ensure this has been reflected in the accounts.	We concluded that the net assets of the Fund are fairly stated in the financial statements.
We will seek to ensure that investment management fees are completely and accurately recorded.	We have confirmed the costs included in the accounts.
We have to remain alert to the potential of fraud and error in the accounts.	There are no matters to bring to your attention.
Superannuation Fund's Annual Report	We will complete our review of the Annual Report as soon as possible and report this formally.

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**Errors in the financial statements**

- 10 The audit of the accounts seeks to ensure that the accounts are materially correct and present fairly a view of the financial transactions of the Fund in 2008/09. Materiality is defined in auditing standards as "information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size of the item or error judged in the particular circumstances of its omission or misstatement."
- 11 Our materiality for the Fund's audit was set at £20 million. We also set, in accordance with International Standards on Auditing (UK and Ireland), a threshold below which we judge any errors to be 'trivial' and do not seek any amendments to the accounts. The trivial threshold was £200,000.
- 12 During our audit we identified a small number of errors in the financial statements and reported these to management and these have been corrected. None of these in our opinion need to be brought to your attention to assist you to fulfil your

## Superannuation Fund Audit

governance responsibilities. There are no unadjusted errors to bring to your attention.

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### Opinion on the financial statements

- 13** Subject to satisfactory clearance of outstanding matters, we plan to issue an unqualified opinion on the financial statements. Appendix 1 contains a copy of the draft audit report. The format is subject to some minor revision before being finalised but these changes will not alter the status of the unqualified audit opinion.
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### Material weaknesses in internal control

- 14** We have not identified any weakness in the design or operation of an internal control that might result in a material error in your financial statements of which you are not aware.
- 15** We have not provided a comprehensive statement of all weaknesses which may exist in internal control, or of all improvements which may be made. We have reported only those matters which have come to our attention because of the audit procedures we have performed.
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### Accounting practice and financial reporting

- 16** I have considered the qualitative aspects of your financial reporting and there are no matters to highlight.
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### Other reporting issues

- 17** There are no other matters that we need bring to your attention.
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### Management representation letter

- 18** We have discussed this with officers and reported the areas where we will seek representation to the Governance & Audit Committee as this committee approves the full accounts which includes the Fund accounts. For your information and to be aware of the representations being made by officers, the draft representation letter is shown at appendix 1.
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### Audit fees

- 19** Our proposed fee of £55,600 for the 2008/09 audit of the Fund was set out in an audit plan which was issued February 2000. No increase in the fee is expected.

# Appendix 1- Draft letter of representation

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To: Darren Wells  
Appointed Auditor

16 South Park  
Sevenoaks  
Kent  
TN13 1AN

## **Kent County Council - Audit for the year ended 31 March 2009**

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Kent County Council, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2009. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

### **Compliance with the statutory authorities**

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Council Accounting in the United Kingdom: A Statement of Recommended Practice which present fairly the financial position and financial performance of the Council and for making accurate representations to you.

### **Uncorrected misstatements**

I confirm that I believe that the effects of the uncorrected financial statements misstatements listed in the attached schedule are not material to the financial statements, either individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council and the reasons for not correcting these items are as follows;

reason 1 - as at 20/6/09 these are still being discussed - to be updated on 22/6/09

## Appendix 1- Draft letter of representation

### Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Council have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all Council meetings, have been made available to you.

### Irregularities

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect fraud or error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements; or
- communications from regulatory agencies concerning non-compliance with, or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

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I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements; and
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

### Law, regulations, contractual arrangements and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Council.

The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

### Assets

The following have been properly recorded and, where appropriate, adequately disclosed in the financial statements:

- losses arising from sale & purchase commitments;

## Appendix 1- Draft letter of representation

- agreements & options to buy back assets previously sold; and
- assets pledged as collateral.

### Compensating arrangements

There are no formal or informal compensating balancing arrangements with any of our cash and investment accounts.

### Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements; and
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements.

### Related party transactions

I confirm the completeness of the information disclosed regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements.

### Post balance sheet events

Since the date of approval of the financial statements by the Council, no additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

The Council has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Signed on behalf of Kent County Council

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Date