



The Audit Findings for Kent Pension Fund

Year ended 31 March 2020

29 September 2020



Contents



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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 was completed on site/remotely during July-September. Our findings are summarised on pages 4 to 11. We have identified 1 adjustment to the financial statements that have resulted in a reclassification adjustment to the Pension Fund's reported financial position. The finance team amended the draft accounts for a valuation received after they were produced. Audit adjustments are detailed in Appendix A. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix B) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • receipt of management representation letter – see appendix C; • receipt and review of the final Annual Report; • completion of or review of derivatives; • completion of our internal review procedures; and • review of the final set of financial statements. <p>Our anticipated audit report opinion will be unqualified including an Emphasis of Matter paragraph, highlighting property investments valuation material uncertainties.</p>

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.

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 substantially complete 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>There are no issues to bring to your attention. The accounts disclose a material valuation uncertainty in relation to property investments. We have considered in the significant risk for investments on page 6.</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 not identified any issues in respect of management override of controls.</p>

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	Valuation of Level 3 Investments (Annual revaluation)	<p data-bbox="559 342 2005 378">Auditor commentary</p> <p data-bbox="559 378 2005 414">We have:</p> <ul data-bbox="559 414 2005 742" style="list-style-type: none"> <li data-bbox="559 414 2005 449">• evaluated management's processes for valuing Level 3 investments <li data-bbox="559 449 2005 485">• reviewed the nature and basis of estimated values and considered 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 <li data-bbox="559 485 2005 521">• independently requested year-end confirmations from investment managers and the custodian <li data-bbox="559 521 2005 628">• for all but one of the Level 3 investments, tested the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and either agreed these to the fund manager reports at that date or used the March valuation and adjusted for transactions to reconcile to the audited accounts. No audited accounts were available for the LF Woodford Equity Income Fund (now renamed Link Equity Fund); <li data-bbox="559 628 2005 664">• evaluated the competence, capabilities and objectivity of the fund manager as valuation expert <li data-bbox="559 664 2005 699">• tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register <li data-bbox="559 699 2005 742">• where available reviewed investment manager service auditor report on design effectiveness of internal controls. <p data-bbox="559 742 2005 849">With regards the Woodford Equity Income Fund, we reviewed the accounting for movements in the investment and the year end valuation. We agreed the transactions and performed an evaluation of the fund manager as a management expert for the purposes of valuation.</p> <p data-bbox="559 849 2005 1056">We have considered the work being undertaken as a result of the internal audit report produced following the suspension of the fund in June 2019 and we were provided with an update on progress against the internal audit recommendations by the Pension Fund management team. Whilst some of the recommendations have been completed there are a number where the date of completion has been delayed, primarily those relating to recommendations surrounding the governance processes. We confirmed that work has been performed to respond to the recommendations and we are aware that the fund has started the process of appointing an external advisor to conduct a governance review the outcome of which will form part of the response to the internal audit report. This governance review is expected to report later in 2020. We will be following up on the outcome of this review as part of our 2020/21 audit.</p> <p data-bbox="559 1056 2005 1120">Addressing the recommendations of the Internal Audit Review , and any that follow the governance review are , in our view a key priority that needs to be addressed in 20/21 where appropriate.</p> <p data-bbox="559 1149 2005 1179">There are no further issues to bring to your attention.</p>

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
5 Valuation of Directly Held Property (Level 2 Investment) Annual valuation	<p data-bbox="561 287 795 311">Auditor commentary</p> <p data-bbox="561 325 872 349">We have undertaken work to:</p> <ul data-bbox="561 364 2003 672" style="list-style-type: none"><li data-bbox="561 364 2003 415">• 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<li data-bbox="561 429 1566 454">• independently request year-end confirmations from investment managers and the custodian<li data-bbox="561 468 1396 492">• evaluate the competence, capabilities and objectivity of the valuation expert<li data-bbox="561 506 1684 531">• write to the valuer to confirm or investment manager the basis on which the valuations were carried out<li data-bbox="561 545 2003 625">• 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.<li data-bbox="561 639 2003 664">• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records <p data-bbox="561 715 706 739">Our Findings</p> <p data-bbox="561 753 2003 891">The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts. This also covers the same uncertainty in relation to the valuation of pooled property investments.</p> <p data-bbox="561 905 2003 986">The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.</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.

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.



Work performed

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





Auditor commentary

- We have not identified any material uncertainty about the Fund's ability to continue as a going concern.

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; Compared latest audited accounts for investments, where available., and considered the level of amendments between the audited figures and valuations for the same period; 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 has not identified any issues over the reasonableness of the valuations.</p>	
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; Reviewed the bass of fund manager valuation where the custodian does not provide an independent valuation; Evaluated the competence, capabilities and objectivity of management's valuation expert; Challenged the valuation of directly held property including the use of an auditor's valuation expert Tested the valuation; and Reviewed any assumptions used in the calculation <p>Our work has not identified any issues over the reasonableness of the valuations however due to the level of uncertainty in the property market the Fund has disclosed a material valuation uncertainty in relation to pooled property investments and directly held property and we will highlight this as an Emphasis of Matter. See page 7 for more detail</p>	

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

Significant findings – key judgements and estimates

	Summary of management’s policy	Audit Comments	Assessment
Actuarial Present Value of Promised Retirement Benefits	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>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 has not identified any issues over the reasonableness of the Actuarial Present Value of Promised Retirement Benefits.</p>	●

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 Governance and 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 has been requested from the Fund, including specific representations in respect of the property valuations, which is appended.
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.
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.
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. We are reviewing the draft Pension Fund Annual Report. 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			
IAS19 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.

Action plan

Assessment	Issue and risk	Recommendations
 High	<p>Due to the current status of the response to the internal audit report recommendations we have noted that it is ongoing and work has been done to respond to the issues raised. However as there are a number of key recommendations still in progress and a follow up internal audit report has not yet been performed (due to the status of the recommendations) we will revisit this risk as part of the 2020/21 audit.</p>	<p>We will revisit this risk as part of the 2020/21 audit to review the actions taken in response to the internal audit report recommendations.</p> <p>Management response</p> <p>Progress on implementing the actions recommended by Internal Audit has been impacted by Covid 19. However a number have been implemented and an external consultant appointed to undertake a review of the governance of the Fund and the finance resources allocated to the management and administration of the Fund. Internal Audit will do a follow up once this review is complete.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

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 unadjusted misstatements

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. The client adjusted the accounts following receipt of the final valuation for one of the Level 3 investments.

Misclassification and disclosure changes

During the audit we requested that the derivative assets were reclassified to liabilities rather than included as a negative asset. There are no significant misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Audit opinion

We anticipate we will provide the Fund with an unmodified audit report

Provided separately

Management letter of representation

Provided separately



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