

By: Cabinet Member for Finance  
Director of Finance

To: Governance and Audit Committee – 30 April 2010

Subject: **Audit Commission – Kent Superannuation Fund**  
**Audit Opinion Plan**

Classification: Unrestricted

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**Summary:** The attached plan sets out the proposed work of the Audit Commission to enable them to give an opinion on the Council's 2009/10 financial statements.

## **FOR INFORMATION AND DECISION**

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### **Introduction**

1. The Audit Commission are required to provide the Committee, defined as those charged with governance under International Standards of Auditing, an update on the proposed work in relation to the Kent Superannuation Fund, which forms part of the Council's financial statements. The report attached sets out the results of the Audit Commission's latest risk assessment in relation to their audit of the Kent Superannuation Fund and provides information on:
  - Assumptions underpinning the fee for the audit.
  - Specific actions that the Kent Superannuation Fund could take to reduce its audit fees.
  - Identification of risks to the audit opinion.
  - The audit testing strategy and timetable.

### **Issues for the Committee to note**

2. The fee for the audit of the Kent Superannuation Fund remains unchanged as a result of the updated risk assessment, and the assumptions upon which the fee is based remain valid in the view of the District Auditor. The fee for the audit, notified to the Council in April 2009 is £64,250.
3. Paragraph 2 of the report explains the Committees responsibility, as viewed by the Audit Commission, in relation to the considering and agreeing the Fund's audit plans, as well as receiving and considering any reports arising from the Fund's audit.
4. The report sets out the results of the Audit Commission's risk assessment. Paragraph 14 and Table 1 of the report sets out the specific risks to the audit opinion, and the work proposed to mitigate these. Paragraphs 16 to 17 and Table 2 set out the proposed timetable for the opinion audit, including reporting to the Committee.

5. Paragraph 9 of the paper asks for a response from the Committee in relation to “its oversight of the Council’s management in relation to the risk of fraud and of possible breaches of internal control, and how the Committee gains assurance that the Council has complied with all relevant laws and regulations”. More detail about the background of this request from the District Auditor is set out in Appendix one to the Audit Commission’s report, but in summary the response is required to provide:
- a commentary on how the Committee oversees management processes to identify and respond to risks.
  - if the Committee aware of any significant internal and/or external operational, financial, compliance or other risks facing the Kent Superannuation Fund which might have an effect on the Fund’s financial statements for 2009/10? If such risks exist, the Committee’s views on the likelihood of those risks materialising?
  - whether the Committee has any knowledge of any actual, suspected or alleged frauds affecting the Fund?
  - if the Committee has been put on notice of any actual or possible instances of non-compliance with laws or regulations?
6. The deadline for the letter to be returned to the District Auditor is 14<sup>th</sup> May.
7. The Council’s constitution specifies that: the Superannuation Fund Committee, “...discharges the functions of the Council in relation to the control and investment of the Superannuation Fund.”

However, the Governance and Audit Committee has responsibilities in relation to the overarching governance framework within which the Council operates which includes the administration of the Superannuation Fund. Therefore it is appropriate that the response to the District Auditor be in the form of a joint letter from the Chairmen of both the Governance and Audit Committee and the Superannuation Fund Committee.

### **Recommendations**

8. Members of the Committee are asked to:
- Note the outcomes of the Audit Commission’s updated risk assessment and review of the assumptions supporting the fee.
  - Approve that the Chairman of the Governance and Audit Committee jointly with the Chairman of the Superannuation Fund Committee provide the required response to the District Auditor, based on the draft at annex 1 of this report.

**David Tonks**  
**Head of Audit and Risk**  
**Ext: 4614**

Mr Darren Wells  
Audit Commission  
2<sup>nd</sup> Floor, The Agora  
Ellen Street  
HOVE  
BN3 3LN

Dear Mr Wells

**Kent Superannuation Fund's Financial Statements 2009/10**

Thank you for your letter of xx April 2010.

The Governance and Audit Committee have considered the content of your letter, and have noted the particular information that you have requested, including the fact that you are interested in significant matters only. The Governance and Audit Committee have approved the following response:

**How the Committees oversees Management process to identify and respond to risk.**

The Terms of Reference of the Governance and Audit Committees gives it responsibility for “agreeing the risk management policy with the Cabinet and reviewing the effectiveness of risk management ...”

The Governance and Audit Committee has met this responsibility during the 2009/10 financial year, and as a result it is able to judge that it is satisfied with the management processes to identify and respond to risk.

The following work of the Committee during 2009/10 is relevant in this instance:

- Reviewing the strategic risk register of the Council twice in year as a source of assurance that management have identified, assessed and are controlling and monitoring the financial and non-financial risks of the Council.
- The establishment of a trading activities sub group to monitor and review the risks associated with the Councils trading activity
- Agreement and monitoring of an annual internal audit plan that provides assurance in relation to the management of the significant risks faced by the Council, and also provides assurance on the risk management and governance frameworks put in place by management.
- Receiving, requesting and assessing ad-hoc and routine assurance reports on:
  - Complaints (including those referred to the Ombudsman)
  - Private Finance Initiative
  - Surveillance activities
  - Corporate Governance indicators
  - Debt recovery and management
  - Treasury management
  - Insurance activities

- Receiving generally positive reports from the Audit Commission on its own risk based programme and tracking management responses to recommendations made.

The Governance and Audit Committee also takes assurance from the findings of Audit Commissions' Use of Resources Assessment on the Council's governance arrangements including risk management and fraud.

In June 2010 the Governance and Audit Committee will be asked to review and approve the Annual Governance Statement of the Council. This process will include consideration of the Council's ability to identify and manage risks and a consideration of the overall internal control environment.

The Superannuation Fund Committee has no direct responsibility for overseeing the management of risk of in Kent County Council. However, it does oversee the management of risks specific to the control and investment of the Superannuation Fund. This is achieved through a variety of means, including regular updates on:

- the fund position and structure and property portfolios;
- currency management;
- investment managers performance, and;
- pensions administration issues;

The Superannuation Fund Committee has also received a progress reports on delivering compliance with CiPFA's guidance on investment decision making and disclosure, and has adopted the CiPFA guidance on delivering good governance in local government pension funds.

### **Significant internal and/or external operational, financial, compliance or other risks facing the fund which might have an effect on the fund's financial statements for 2009/10**

The Committees are not aware of any such items that might have an effect on the fund's financial statements for 2009/2010.

### **Actual, suspected or alleged frauds affecting the Council**

The Governance and Audit Committee receives a quarterly progress report from Internal Audit which includes details of frauds and irregularities. The Audit Commission has access to the same information through the published papers of the Governance and Audit Committee. None of the cases during 2009/2010 would be deemed as significant. In addition there remain cases that are still subject to investigation which have yet to be reported. The Head of Audit and Risk has provided assurance that the circumstances of these cases would also not be considered significant although until the investigations are complete this cannot be guaranteed.

**Actual or possible instances of non-compliance with laws or regulations**

The Legal and Democratic Services Unit is responsible for ensuring that the Council correctly applies the law and regulations governing its business. The department is led by the Director of Law and Governance, who is also the Council's Monitoring Officer. The Director of Law and Governance is able to attend all meetings of the Governance and Audit Committee, and would make the Committee aware of any significant possible instances of non-compliance with laws or regulations. In addition the Head of A&R would also report any known instances of significant instances of non-compliance with laws or regulations. The Governance and Audit Committee has not received any notifications through these two routes during 2009/10.

Yours sincerely

Chairman of the Governance and Audit  
Committee

Chairman of the Superannuation Fund  
Committee