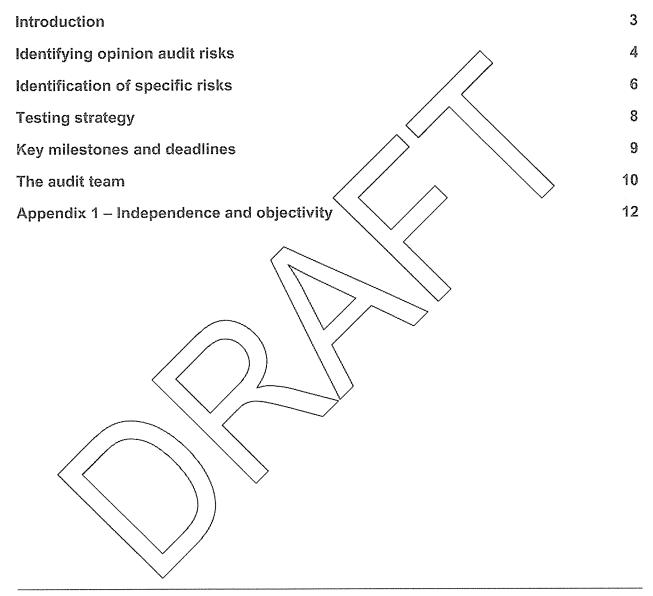
Kent
Superannuation
Fund

Audit Opinion Plan

Kent County Council
Audit 2009/10
April 2010

Contents



Status of our reports

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Introduction

- Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008 requires administering authorities to prepare an annual report for the pension fund, which should incorporate the annual accounts.
- 2 As the Superannuation Fund accounts remain part of the financial statements of Kent County Council as a whole, the Governance & Audit Committee retains the responsibility for receiving, considering and agreeing the Fund's audit plans, as well as receiving and considering any reports arising from the Fund's audit.
- I have prepared a plan for the audit of the Superannuation Fund 2009/10 which will be presented to the Governance & Audit Committee in April 2010.

The fee

- 4 I am required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work. This involves:
 - Identification of the risk of material misstatements in your accounts;
 - planning audit procedures to address these risks; and
 - ensuring that the audit complies with all relevant auditing standards, including Practice Note 15.¹
- I wrote to the Chief Executive on 30 April 2009 and set out the proposed fee of £64,250 (exclusive of VAT) for the 2009/10 audit of the Superannuation Fund. The scale fee set by the Audit Commission is £70,900 (excluding VAT). I am able to confirm that based on more detailed planning that has now been undertaken as we approach the formal opinion audit that the proposed fee remains appropriate.
- 6 While I am not expecting to amend the fee, should this be necessary I will discuss this with the Director of Finance in the first instance and will update the Committee.

Specific actions that Kent Superannuation Fund could take to reduce its audit fees

7 The Audit Commission requires its auditors to inform audited bodies of specific actions it could take to reduce its audit fees. As in previous years, we have worked with your staff to identify any specific actions that the Fund could take and there are no actions to report to you at this time.

¹ Auditing Practices Board Practice Note 15 'The Audit of Occupational Pension Schemes in the United Kingdom'.

Identifying opinion audit risks

Organisation level risks

- 8 As part of our audit risk identification process we need to fully understand the Superannuation Fund to identify any risk of material misstatement (whether due to fraud or error) in the financial statements. We do this by:
 - identifying the business risks facing the Fund, including assessing your own risk management arrangements;
 - considering the financial performance of the Fund; and
 - assessing internal control, which includes consideration of the effectiveness of the general and IT control environment and internal audit.

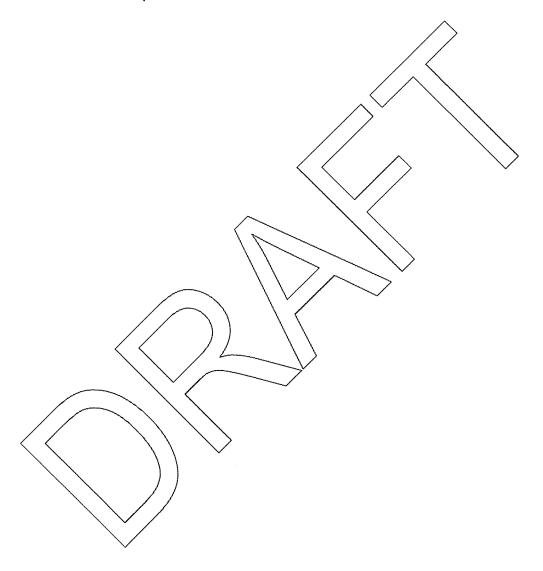
Information system risks

- 9 To comply with International Standards on Auditing (United Kingdom & Ireland) (ISA (UK&I)) 315 we need to assess the risk of material misstatement arising from the activities and controls within the Fund information systems. To be able to assess these risks we need to identify and understand the material systems and document that understanding.
- 10 Material systems are those which produce material figures in the annual financial statements. For these systems we need to demonstrate our understanding by documenting the following.
 - how transactions are initiated, recorded, processed and reported in the financial statements;
 - the accounting records relevant to the transactions;
 - how the Fund identifies and captures events and conditions which are material to the financial statements; and
 - the financial reporting process used to prepare the financial statements.

Assertions

11 When considering the risk of material misstatement we consider what the Director of Finance is stating when she signs the financial statements. An audited body's management is responsible for the preparation and presentation of the statements which give a true and fair view of the nature and activity of the Fund for the period. In doing so, management are making statements regarding the recognition, measurement, presentation and disclosures of various elements of the statements and related disclosures.

- 12 Representations from management are referred to as assertions about financial statements in ISA (UK&I) 500 and we have to ascertain that the statements are free from material misstatement at the assertion level. The ISA splits out the assertions and considers their applicability in respect of:
 - Fund Account items;
 - Net Assets Statement items; and
 - disclosures and presentational elements of the overall financial statements.



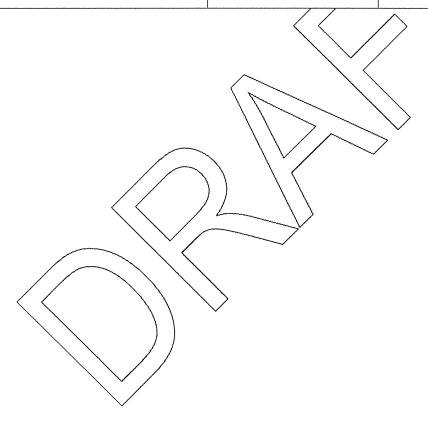
Identification of specific risks

13 We have considered the additional risks that are appropriate to the current opinion audit and have set these out below.

Table 1 Specific opinion risks identified

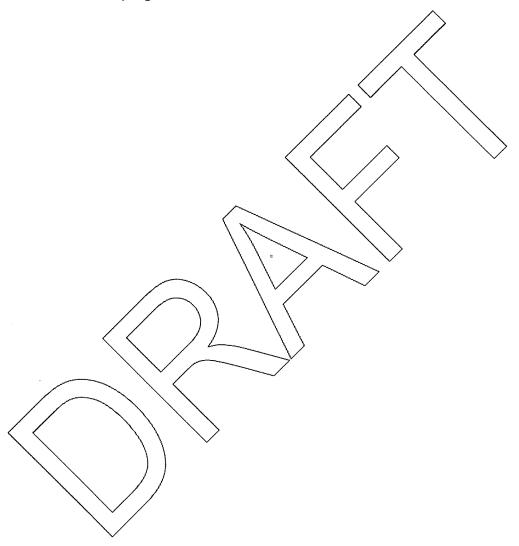
Risk area	Assertion	Audit response
Contributions With effect from 1 April 2008 employees' contributions to the Local Government Pension Scheme are on a tiered basis with differing rates depending on the band in which their pensionable pay for the previous year fell. There is a risk that contributions will not be paid to the Superannuation Fund at the right rates and that this could result in a material misstatement to the financial statements.	Accuracy Completeness	Review the systems and processes in place to ensure that contributions from participating employees' contributions are being collected at the right rates.
Internal controls at fund managers and custodians The Superannuation Fund outsources services to fund managers and custodians. Procedures are needed to ensure that reliance can be placed on the accuracy and completeness of the information provided such that where it is used to produce the Fund's financial statements it supports a true and fair view of the financial position of the Fund at year end.	Classification Existence Rights and obligations Valuation and allocation Occurrence Completeness Accuracy Cut-off	Review the actions taken by the Council to confirm that reliance can be placed on the information provided by fund managers and custodians.

Risk area	Assertion	Audit response
Derivatives The accounting for derivatives can be complex and is driven by the details of each contract.	Valuation and allocation	Obtain an understanding of the contracts and the accounting treatment adopted.
Valuation of unquoted and private equity investments There are no formally quoted prices so the valuation needs to be based on appropriate techniques relevant to the individual investments held.	Valuation and allocation	Review the basis of the valuation and undertake audit procedures to confirm that they are reasonable.



Testing strategy

14 On the basis of our mandatory work and the risks identified above we will produce a testing strategy which will consist of testing key controls and/or substantive tests of transaction streams and material account balances at year end. Our testing of the controls within the main financial systems that provide information for the statement of accounts and is in progress.

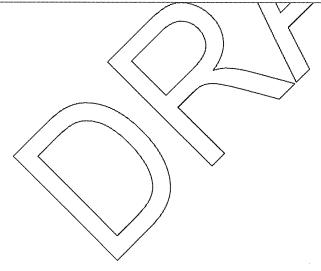


Key milestones and deadlines

- 15 The Council is required to prepare the financial statements for the Superannuation Fund by 30 June 2010. We are required to complete our audit and issue our opinion by 30 September 2010 but aim to do so in July 2010. The key stages in the process of producing and auditing the financial statements are shown in Table 2.
- We will maintain regular contact with officers throughout the audit. Once detailed work on the financial statements begins we will maintain a running log of issues arising from the audit which will form the basis of our reporting to the Governance & Audit and Superannuation Fund Committees.

Table 2 Proposed timetable

Task	Deadline
Receipt of accounts	11 June 2010
Receipt of working papers from officers	11 June 2010
Present report to those charged with governance at the Governance and Audit Committee	30 June 2010 (interim) September 2010 (final)
Issue of opinion	July 2010



The audit team

17 The key members of the audit team for the 2009/10 audit are shown in the table below.

Table 3 Audit team

Name	Contact details	Responsibilities
Darren Wells District Auditor	d-wells@audit- commission.gov.uk 0844 798 6110	Responsible for the overall delivery of the audit and signing the opinion. Maintains ongoing contact with Director of Finance.
Grahame Brown Audit Manager	g-brown@audit- commission.gov.uk 0844 798 6107	Jointly manages and coordinates the different elements of the audit of the Superannuation Fund.
Liz Robinson Audit Manager	e-robinson@audit- commission.gov.uk 0844 798 1377	Jointly manages and coordinates the different elements of the audit of the Superannuation Fund. Key point of contact for officers.
Jeremy Jacobs Team Leader	j-jacobs@audit- commission.gov.uk 0844 798 6121	Directs the pre- and post-statements audit work on a day-to-day basis.

Quality of service

- 18 We are committed to providing you with a high quality service. If you are in any way dissatisfied, or would like to discuss how we can improve our service, please contact me in the first instance. Alternatively you may wish to contact Neil Childs, Head of Operations (n-childs@audit-commission.gov.uk).
- 19 If we are unable to satisfy your concerns, you have the right to make a formal complaint to the Audit Commission. The complaints procedure is set out in the leaflet 'Something to Complain About' which is available from the Commission's website or on request.

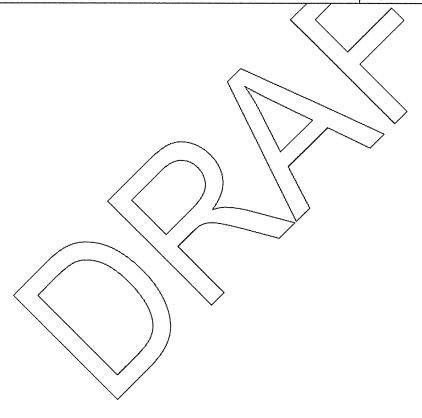
The audit team

Planned outputs

20 Reports will be discussed and agreed with the appropriate officers before being issued to the Governance & Audit Committee

Table 4 Planned outputs

Planned output	Indicative date
Opinion audit plan	April 2010
Annual governance report	30 June 2010 (interim) September 2010 (final)
Auditor's report giving an opinion on the financial statements	July 2010



Appendix 1 – Independence and objectivity

- 21 Auditors appointed by the Audit Commission are required to comply with the Commission's Code of Audit Practice and Standing Guidance for Auditors, which defines the terms of the appointment. When auditing the financial statements, auditors are also required to comply with auditing standards and ethical standards issued by the Auditing Practices Board (APB).
- 22 The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below.
- 23 International Standard on Auditing (UK and Ireland) 260 (Communication of audit matters with those charged with governance) requires that the appointed auditor:
 - discloses in writing all relationships that may bear on the auditor's objectivity and independence, the related safeguards put in place to protect against these threats and the total amount of fee that the auditor has charged the client; and
 - confirms in writing that the APB's ethical standards are complied with and that, in the auditor's professional judgement, they are independent and their objectivity is not compromised
- The standard defines 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Governance & Audit Committee. The auditor reserves the right, however, to communicate directly with the Council on matters which are considered to be of sufficient importance.
- The Commission's Code of Audit Practice has an overriding general requirement that appointed auditors carry out their work independently and objectively, and ensure that they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. In particular, appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement.

- 26 The Standing Guidance for Auditors includes a number of specific rules. The key rules relevant to this audit appointment are as follows.
 - Appointed auditors should not perform additional work for an audited body (ie work over and above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might give rise to a reasonable perception that their independence could be compromised. Where the audited body invites the auditor to carry out risk-based work in a particular area that cannot otherwise be justified as necessary to support the auditor's opinion and conclusions, it should be clearly differentiated within the Audit and Inspection Plan as being 'additional work' and charged for separately from the normal audit fee.
 - Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.
 - The District Auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every five years.
 - The District Auditor and senior members of the audit team are prevented from taking part in political activity on behalf of a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.



