

# Annual Governance Report

Kent Superannuation Fund

Audit 2009/10

August 2010

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Ladies and Gentlemen

**Superannuation Fund accounts 2009/10**

I am pleased to present the final version of my report on the results of my audit work on the Superannuation Fund's accounts for 2009/10.

An Annual Governance Report covering the audit of the Council's financial statements including the Superannuation Fund's accounts was discussed with the Governance & Audit Committee on 30 June 2010. This noted that some audit work remained to be completed.

That work has now been completed and this report summarises all the key findings from the Superannuation Fund audit.

Yours faithfully

Darren Wells  
District Auditor  
9 August 2010

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# Key messages

This report summarises the findings from the 2009/10 audit of the Superannuation Fund.

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Financial statements	Results	Page
Unqualified audit opinion	Yes	4
Financial statements free from material error	Yes	4
Adequate internal control environment	Yes	7

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## Audit opinion

- 1 An unqualified opinion was given on the Superannuation Fund accounts on 30 July 2010.

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## Financial statements

- 2 I set the materiality level for the audit at £14.4 million for the Superannuation Fund and a threshold of £144,000 below which I judge any errors to be 'trivial' and do not seek any amendments to the accounts.
- 3 The Superannuation Fund accounts were submitted for audit on 10 June 2010 and were of a good quality. I concluded that they were free from material error.
- 4 I was satisfied with the qualitative aspects of the Council's processes for preparing the accounts and supporting working papers subject to the arrangements for related party transactions. This matter is one of eight reported in Table 1 below that include updates on four risks that I had identified before the audit.

**Table 1 Superannuation Fund accounts 2009/10- key areas of judgement and audit risks**

Issue	Finding
<b>Matters arising at the 2009/10 audit</b>	
<p>Pooled investment rebated fees: Rebated fees received for pooled investments are treated inconsistently in the Superannuation Fund accounts. Where a lower fee has been agreed with a unit trust manager, the fees are rebated by way of additional units. However, in the case of Invesco Perpetual the rebated fees are being treated as income resulting in a £2.7million overstatement of income and a similar understatement of the market value. There was no impact on net worth of the Fund.</p>	<p>The notes to the Fund accounts were amended to ensure consistent treatment of pooled investment rebated fees.</p>
<p>Freehold property portfolio: The list of deeds held by the Council on behalf of the Superannuation Fund included several properties that are no longer owned by the Fund and some where descriptions were inconsistent. Further investigation was required to ensure that the legal department held deeds for all properties owned by the Fund.</p>	<p>A six-monthly reconciliation between legal department and Fund records should be completed to ensure that accurate records of Fund deeds are held and that they are named consistently. A recommendation will be included in an updated Annual Governance Report that will be presented to the Governance &amp; Audit Committee in September 2010.</p>
<p>Related party transactions: Under International Standard of Auditing (United Kingdom &amp; Ireland) 550 'Related Parties' I am required to consider the adequacy of control activities over the authorisation and recording of related party transactions.</p>	<p>A recommendation to improve the process for obtaining related party transaction declarations from members and senior officers was reported at the last audit. At this audit, Superannuation Fund declarations were not sought from the three local authority representatives of the Superannuation Fund Committee. A recommendation will be included in</p>

Issue	Finding
<b>Matters arising at the 2009/10 audit</b>	
	an updated Annual Governance Report that will be presented to the Governance & Audit Committee in September 2010.
<p>Related party disclosures: The cash held in Kent County Council's bank account on behalf of the Superannuation Fund totals £55m at year end. This amount should have been included as a related party balance in both the Council's and Superannuation Fund's accounts related party transactions note.</p>	Amended disclosures were made in the Council's and Fund's accounts.

<b>Risks identified in advance of the post-statement audit</b>	
<p>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.</p>	I did not find any errors or weaknesses in the systems and processes to ensure that the right rates were being used in calculating contributions.
<p>Internal controls at fund managers and custodians: The Superannuation Fund out-sources 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.</p>	I have assessed the actions taken by the Council to place reliance on the Statement on Auditing Standards (SAS) 70 reports. I confirm that officers review the internal control reports provided by fund managers. Officers will report on an exception basis to the Superannuation Fund Committee if weaknesses are identified.

## Key messages

Risks identified in advance of the audit	
Derivatives: The accounting for derivatives can be complex and is driven by the details of each contract.	The accounting treatment adopted is appropriate.
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.	The basis of valuation is reasonable.

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### Internal control environment

- 5 Based on the work undertaken at the audit, I have concluded that the Superannuation Fund's internal control environment is sound.

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### Independence

- 6 I have informed you of any relationships between the auditor and Kent County Council and its senior management that might affect the auditor's objectivity and independence and any safeguards put in place. I confirm that we have complied with the Accounting Practice Board's ethical standards and that we are independent and that our objectivity is not compromised.

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# Next steps

**This report identifies the key findings from the 2009/10 audit of the Superannuation Fund to assist you undertake your governance responsibilities. It includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.**

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**7** I ask the Superannuation Fund Committee to consider the contents in the report.

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