

Audit plan

Any pension fund

Audit 2011/12



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Introduction

This plan sets out the work for the 2011/12 audit. The plan is based on the Audit Commission's risk-based approach to audit planning.

I am pleased to present to you my Audit Plan. It includes my analysis of the key risks for the financial statements audit, my audit strategy and planned reporting timetable. Discussion of this plan with you ensures that I understand your concerns and you are clear on the intended scope of the audit, two key elements to ensure that I provide you with a high quality audit service. I will also share this plan with members of the Governance and Audit Committee at its meeting in April 2012.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

My audit of the accounting statements does not relieve officers or members of the Superannuation Fund committee and the Governance and Audit Committee, of their responsibilities.

Accounting statements and Pension Fund Annual Report

I will carry out the audit of the pension fund accounting statements included within the Council's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland). I also report on the accounting statements included in the Pension Fund Annual Report.

Auditors issue audit reports giving an opinion on whether the accounting statements give a true and fair view. International Standards of Auditing require auditors to undertake sufficient testing to be satisfied for all material classes of transactions and balances that the following assertions are met.

Occurrence	Transactions and events that have been recorded have occurred and relate to the Pension Fund.
Completeness	All transactions and events that should have been recorded have been recorded.
Accuracy	Amounts and other information relating to recorded transactions and events have been recorded appropriately.
Cut off	Transactions and events have been recorded in the correct accounting period.
Classification	Transactions and events have been appropriately presented and categorised in the proper accounts.
Existence	Assets and liabilities exist.
Rights and obligations	The Pension Fund holds or controls the rights to assets and liabilities are the obligations of the Pension Fund.
Valuation and allocation	Assets and liabilities are included at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion. Materiality can be defined 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.’

At the planning stage of the audit, I have calculated materiality as £16 million. I will use this to identify the material financial systems that produce the accounting entries in the 2011/12 financial statements and will reassess materiality on receipt of the draft financial statements in June 2012.

Identifying audit risks

I need to understand the Pension Fund to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Fund, including assessing your own risk management arrangements;
- considering the financial performance of the Fund;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Fund’s information systems.

Identification of significant risks

I have considered the additional risks that are relevant to the audit of the accounting statements. A significant risk is a risk that requires special audit consideration, on the grounds that it is highly likely that the risk will be realised, and will result in a material misstatement in the financial statements. I have set these out below.

Table 1: **Significant risks**

Risk	Audit response
<p>Actuarial present value of retirement benefits</p> <p>The present value of retirement benefits is a material item in your financial statements. The complexities involved in the valuation means that there is a risk that the financial statements may be materially misstated.</p>	<p>Review of management arrangements for instructing the actuary and controls over information provided to the actuary.</p> <p>Procedures for reliance on the work of the actuary as an expert.</p> <p>Tests of detail on accounting entries and the IAS 26 valuation report.</p>
<p>Actuarial valuation of pension liability</p> <p>The actuarial valuation of the pension fund liability is a material accounting estimate in the financial statements. The actuary uses a number of assumptions to calculate this highly complex valuation. In addition, the valuation reports in 2010/11 were materially inconsistent for a small number of admitted bodies and revised valuations were provided by the actuary.</p>	<p>Review of management arrangements for instructing the actuary and controls over information provided to the actuary.</p> <p>Procedures for reliance on the work of the actuary as an expert.</p> <p>Tests of detail on accounting entries and the IAS 19 valuation report.</p>

Identification of specific risks

I have also considered the specific risks that are relevant to the audit of the accounting statements. A specific risk occurs where I identify a specific issue related to a particular item in the financial statements. I have set these out below.

Table 2: **Specific risks**

Risk	Audit response
<p>Valuation of freehold property</p> <p>The accounting for freehold property is a material accounting estimate. The portfolio is managed by DTZ and was valued by Colliers CRE at 31</p>	<p>Procedures for reliance on the work of the valuer as an expert.</p> <p>Tests of detail on accounting entries and the valuation report.</p>

Risk	Audit response
<p>March 2011 at £191 million.</p> <p>Investment commitments</p> <p>The pension fund has committed money to four private equity investments. These are equity securities in operating companies that are not publicly traded on a stock exchange.</p>	<p>Procedures for reliance on the work of the expert in valuing the investments.</p> <p>Tests of detail on accounting entries against the year end investment commitment reports.</p>

Testing strategy

My audit involves:

- testing of the operation of controls;
- reliance on the work of other auditors;
- reliance on the work of experts; and
- substantive tests of detail of transactions and amounts.

The nature and timing of my proposed work is as follows.

Table 3: **Testing**

	Review of internal audit	Reliance on the work of other auditors	Reliance on work of experts	Controls testing	Substantive testing
Interim visit	None	Pensions contributions – sample of auditors of admitted bodies	None	General ledger and AXISE pensions database.	None
Final visit	None	None	Pensions liabilities – Barnett Waddingham, and my consulting actuary, PwC; Valuation of direct property investments – DTZ and Colliers CRE, and my consulting valuer, Gerard Eve; Valuation of unquoted investments.	None	All material accounts balances and amounts Year-end feeder system reconciliations Investments

I will agree with you a schedule of working papers required to support the entries in the accounting statements.

Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund’s Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Key milestones and deadlines

Kent County Council as the administering authority is required to prepare the accounting statements by 8 June 2012. I aim to complete my work and issue my opinions on the accounting statements included in the Statement of Accounts and the Pension Fund Annual Report by end July 2012.

Table 4: **Proposed timetable and planned outputs**

Activity	Date	Output
Opinion: controls and early substantive testing	February and April 2012	
Opinion: receipt of accounts and supporting working papers	8 June 2012	
Opinion: substantive testing	11 – 29 June 2012	
Present Annual Governance Report at the Governance and Audit Committee	26 July 2012	Annual Governance Report
Issue opinion on accounting statements included in the Statement of Accounts	By end July 2012	Auditor's report
Present Annual Governance Report at the Kent Superannuation Fund Committee	31 August 2012	Annual Governance Report
Issue opinion on accounting statements included in the Pension Fund Annual Report	By 30 September 2012	Auditor's report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 5: **Audit team**

Name	Contact details	Responsibilities
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 07748 760569	Responsible for the overall delivery of the audit including quality of reports, signing the opinion and reporting the outcomes to members.
Elizabeth Olive Audit Manager	e-olive@audit-commission.gov.uk 07779 338056	Manages and coordinates the different elements of the audit work. Key point of contact for the Corporate Director of Finance and Procurement and Head of Financial Services.
Harpal Singh Pensions Team Leader	h-singh@audit-commission.gov.uk 07791 022119	Manages the day to day delivery of audit work from the team during the audit visits. Key point of contact for the Treasury and Investments Manager.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1.

I am not aware of any relationships that may affect the independence and objectivity of the Audit Commission, the audit team or me, that I am required by auditing and ethical standards to report to you.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £49,170 as set out in my letter of 27 April 2011.

The audit fee

The Audit Commission has set a scale audit fee of £49,170 and this fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the fee equal to the scale fee.

Assumptions

In setting the fee, I have made the following assumptions. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee:

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example:
 - internal controls are operating effectively; and
 - I secure the co-operation of other auditors.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 8 June 2012;
 - the full text of the Pension Fund Annual Report by 1 August 2012;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 6: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	<p>Appointed auditors and their staff should avoid 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.</p> <p>The appointed auditor and senior members of the audit team must not take part in political activity for 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.</p>	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>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.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.

Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards

Appendix 2 – Glossary

Accounting statements

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Governance Statement

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to the Governance and Audit Committee before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

The term 'materiality' applies only to the accounting statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the accounting statements, which do not necessarily affect their opinion on the accounting statements.

Pension Fund Annual Report

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Council, the Kent Superannuation Fund Committee and the Governance and Audit Committee.

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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.

