



The Audit Plan for Kent Superannuation Fund

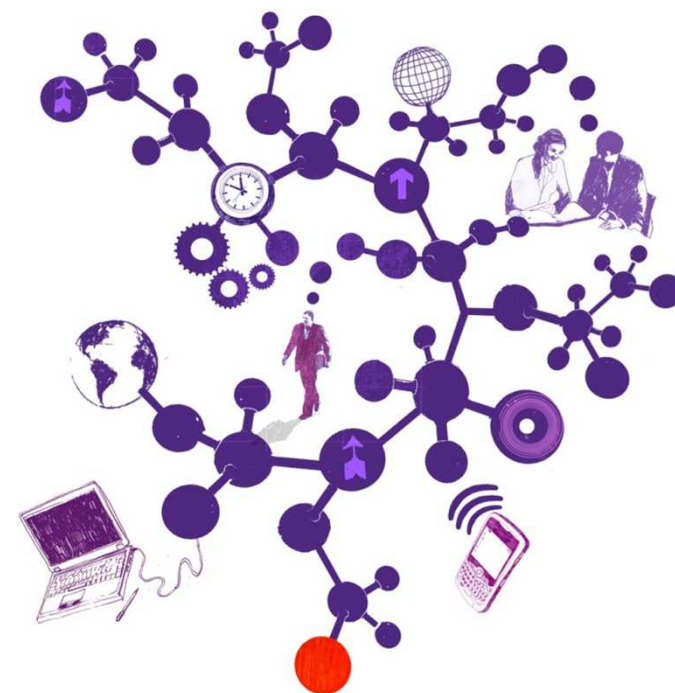
Year ended 31 March 2014

April 2014

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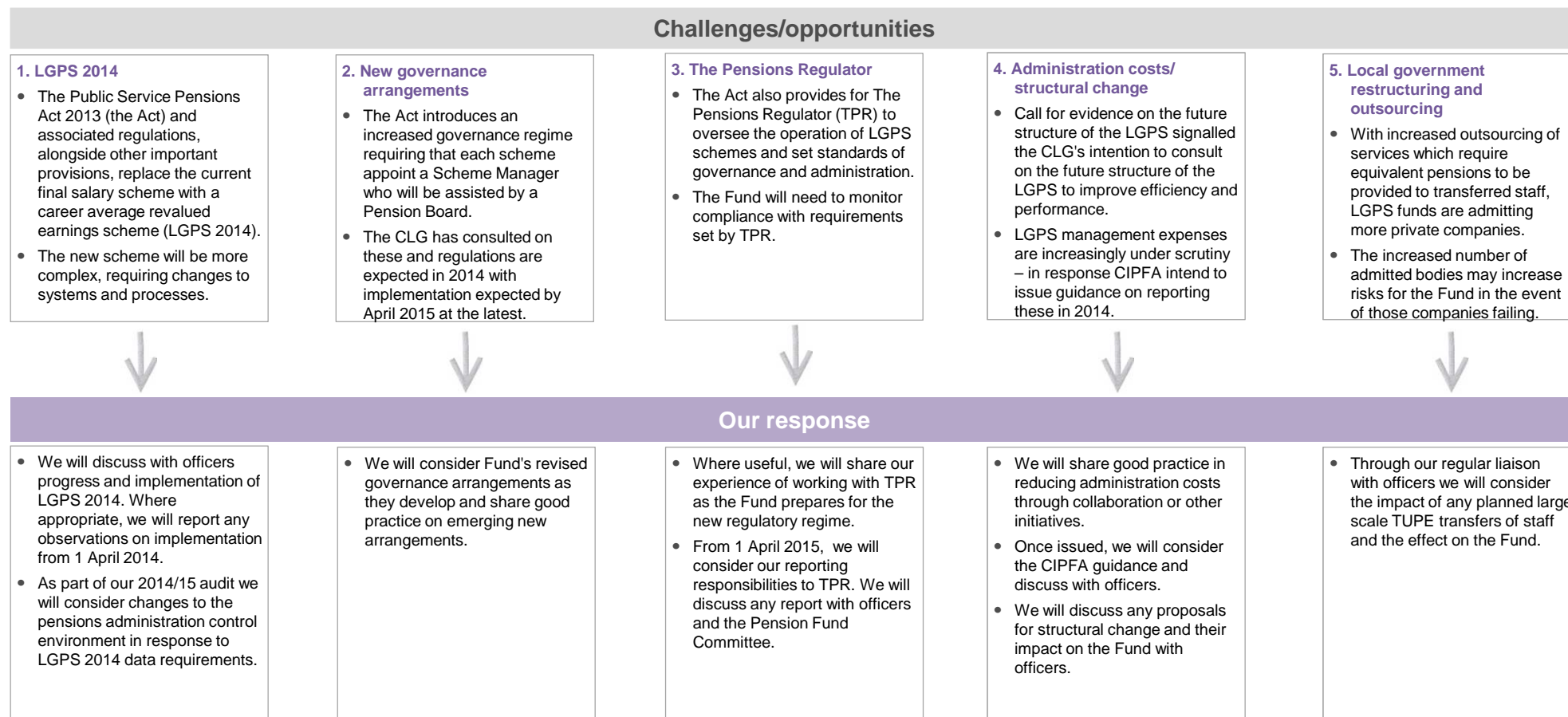
The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. 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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Understanding your business

In planning our audit we need to understand the challenges and opportunities the Superannuation Fund is facing. We set out a summary of our understanding below.



Developments relevant to your Superannuation Fund and the audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial reporting

There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2014.

2. LGPS 2014

Planning and implementing of the Career Average Re-valued Earnings scheme (CARE), effective from 1 April 2014, will impact on the workload of the pensions administration team. This alongside, further developments in relation to governance may impact on the capacity to respond to audit queries.

3. Triennial valuation

Following the 31 March 2013 actuarial valuation the Council is in the process of considering the level of additional employer deficit contributions required and how to fund them.

4. Financial Pressures – Pension fund

Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income. Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of investment markets.

Our response

We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

We will discuss the impact of the changes through our regular meetings with management.

We will plan our audit and agree timetables with officers to ensure that the audit of the Fund causes minimal disruption to officers.

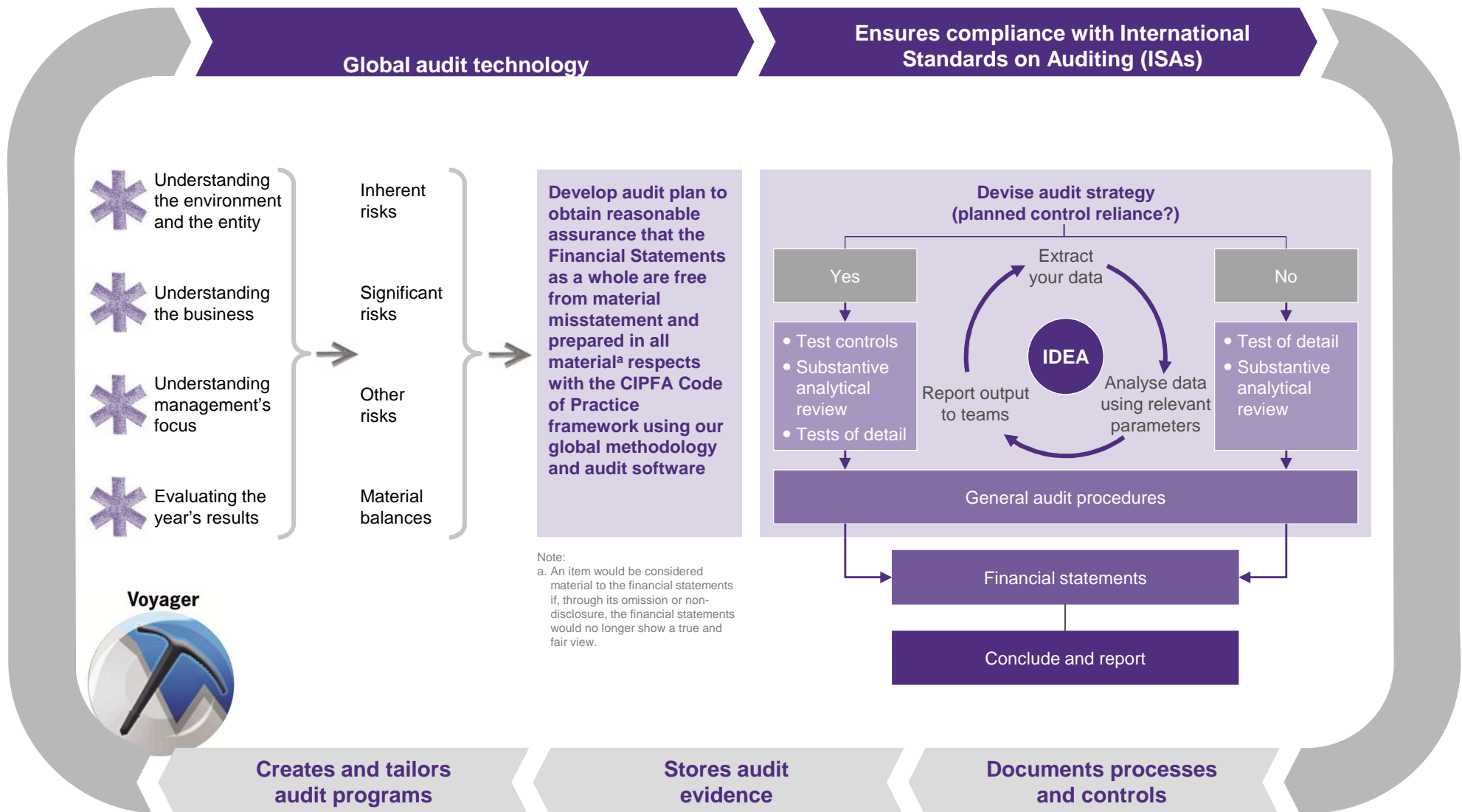
We will maintain regular dialogue with management to assess the impact this has on the administration of the pension fund.

We will also review whether there are any required disclosures in the 2013/14 financial statements.

We will monitor the changes being made to the Fund investment strategy through our regular discussions with management.

We will consider the impact of changes on the nature of investments held by the pension fund and adjust our testing strategy as appropriate.

Our audit approach



Significant risks identified

'Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty' (ISA 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
Improper revenue recognition	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>We have rebutted this presumption and therefore do not consider this to be a significant risk for the Kent Superannuation Fund since:</p> <ul style="list-style-type: none">• The nature of the Superannuation Fund's revenue is in many respects relatively predictable and does not generally involve cash transactions.• The split of responsibilities between the Superannuation Fund, its fund managers and the custodian provides a very strong separation of duties reducing the risk around investment income.• Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules. They are directly attributable to gross pay making any improper recognition unlikely.• Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred. They are subject to agreement between the transferring and receiving funds.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	<ul style="list-style-type: none">• Review of accounting estimates, judgements and decisions made by management• Testing of journal entries• Review of unusual significant transactions

Other risks

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Other reasonably possible risks	Description	Planned audit procedure
Investments	Investments not valid Alternative investments not valid Investments activity not valid Fair value measurements not correct*	<p>We will review the reconciliation between information provided by the fund managers, the custodian and the Superannuation Fund's own records and seek explanations for any variances.</p> <p>We will confirm the existence of investments directly with independent custodians and/or fund managers or by agreement to legal documentation.</p> <p>We will test a sample of purchases and sales during the year to detailed information provided by the fund managers.</p> <p>We will select a sample of the individual investments held by the fund at the year end and test the valuation of the sample by agreeing prices to third party sources (quoted investments) or by review of the valuation methodology used to ensure it represents fair value (unquoted investments and direct property investments if material).</p>
Benefit Payments	Benefits improperly calculated/claims liability understated	<p>We have confirmed the existence of controls operated by the Superannuation Fund to ensure that all benefits are correctly calculated and that the appropriate payments are generated and recorded.</p> <p>We will test the key controls identified.</p> <p>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.</p>

* The risk for 'Fair value measurements not correct' consists of three individual risks based on the type of investment. These are;

- Fair value measurements of securities quoted using prices (unadjusted) in active markets for identical investments not correct
- Fair value measurements priced using inputs (other than quoted prices from active markets for identical investments) that are observable either directly or indirectly not correct
- Fair value measurements priced using inputs not based on observable market data (using models or similar techniques) not correct

Other risks (continued)

Other reasonably possible risks	Description	Planned audit procedure
Contributions	Recorded contributions not correct	<p>We have confirmed the existence of controls operated by the Superannuation Fund to ensure that it identifies and receives all expected contributions from member bodies.</p> <p>We will test the key controls identified.</p> <p>We will rationalise contributions received with reference to changes in membership numbers, pension contribution rates and other relevant factors in the year together with comparing contributions received on a monthly basis to ensure that any unusual trends are satisfactorily explained.</p> <p>We will substantively test a sample of contributions deductions from employers payroll.</p>
Membership Data	Member data not correct	<p>We have confirmed the existence of controls and reconciliations covering the determination of member eligibility, the input of evidence onto the pensions administration system and the maintenance of member records.</p> <p>We will test the key controls identified.</p> <p>We will review the reconciliation of member numbers for each category by reference to starters, retirements, deferrals and other relevant changes and seek explanations for variances.</p>

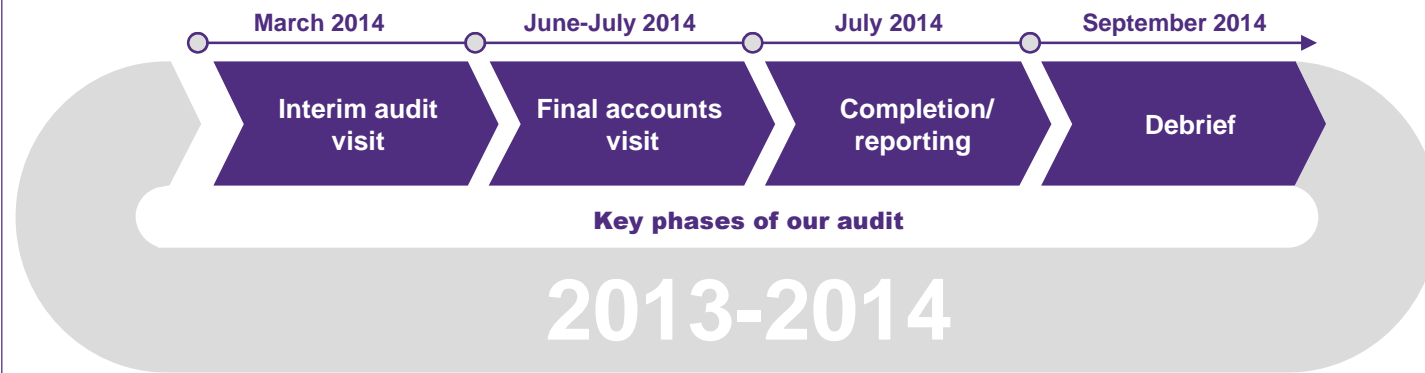
Interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below.

	Work performed and findings	Conclusion
Internal audit	We have reviewed internal audit's overall arrangements in accordance with auditing standards. Our work has not identified any issues which we wish to bring to your attention.	<p>Overall, we have concluded that the Internal Audit service continues to provide an independent and satisfactory service to the Superannuation Fund and that we can take assurance from their work in contributing to an effective internal control environment at the fund.</p> <p>Our review of internal audit work has not identified any weaknesses which impact on our approach.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented in accordance with our documented understanding.</p>	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We will review the Superannuation Fund's journal entry policies and procedures as part of determining our journal entry testing strategy. We will then review all journals raised during 2013/14 including year end closedown journals for preparation of the accounts. We will extract and test any 'unusual' and large journal entries.	This testing will be undertaken as part of our post statements procedures. The results of which will be reported in July 2014.

Logistics and our team

The audit cycle



Our team

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Date	Activity
December 2013	Planning meeting
March 2014	Interim site work
30 April 2014	The audit plan presented to Governance and Audit Committee
16 June 2014	Year end fieldwork commences
8 July 2014	Audit findings clearance meeting
24 July 2014	Findings reported to Governance and Audit Committee
29 August 2014	Superannuation Fund Committee meets to report our findings

Fees and independence

Fees

	£
Pension fund audit	30,568

Fees for other services

Service	£
None	Nil

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Superannuation Fund and its activities have not changed significantly
- The Superannuation Fund will make available management and accounting staff to help us locate information and to provide explanations

Independence and ethics

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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

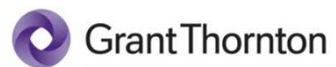
This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission (www.audit-commission.gov.uk).

We have been appointed as the Council and Pension fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice (the Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Pension fund's key risks when reaching our conclusions under the Code.

The audit of the Pension Fund's financial statements does not relieve management or those charged with governance of their responsibilities.

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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