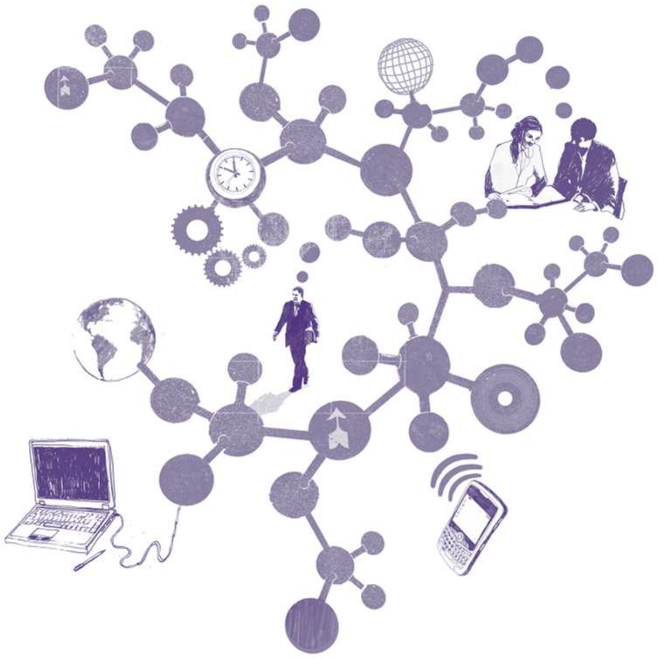
The Audit Findings Report for Kent Superannuation Fund

Year ended 31 March 2014

24 July 2014



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

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.

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of Kent Superannuation Fund's ('the Fund') financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated April 2014.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements.

We have not identified any adjustments affecting the Fund's reported financial position (details are recorded in section two of this report). The draft and audited financial statements recorded net assets carried forward of £4,137,259k. We have agreed with officers, a small number of adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- the financial statements provided to audit on 13 June 2014 were complete and prepared in accordance with the CIPFA's Code of Practice for Local Authority Accounting
- officers produced high quality working papers to support the financial statements and provided timely responses to audit queries
- officers agreed to amend the financial statements for all recommended accounting and disclosure changes we identified.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
July 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance and Audit Committee on 30 April 2014. We also set out the adjustments to the financial statements from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you.

Audit opinion

We anticipate that we will provide an unqualified opinion as set out in Appendix A.

Audit findings against significant risks

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

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	We rebutted this presumption and did not consider this to be a significant risk for the Kent Superannuation Fund since: • 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.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Investments	• Investments not valid • Alternative investments not valid • Investment activity not valid • Fair value measurements not correct*	We have undertaken the following work in relation to this risk: • We have reconciled information provided by the fund managers, the custodian and the Superannuation Fund's own records. We confirmed the existence of investments directly with independent custodians and fund managers. • We tested purchases and sales during the year to detailed information provided by the fund managers. • We selected a sample of the individual investments held by the fund at the year end and tested 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).	Our audit work has not identified any significant issues in relation to the risk identified. We did identify one non-trivial missclassification of purchases and sales of investments. The net effect on the reported investment position was nil. The detail of this finding is set out on page 12.

* 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

Audit findings against other risks (continued)

Transaction cycle	Description of potential risk	Work completed	Assurance gained & issues arising
Benefit Payments	• Benefits improperly computed/ liability understated	• We confirmed the existence of controls operated by the fund to ensure benefits are correctly calculated and that the appropriate payments are generated and recorded. • We tested the key controls identified. • We undertook substantive testing of benefit payments.	Our audit work has not identified any significant issues in relation to the risk identified.
Contributions	• Recorded contributions not correct	• We confirmed the existence of controls operated by the fund to ensure that it identifies and receives all expected contributions from member bodies. • We tested the key controls identified. • We substantively tested contributions deductions .	Our audit work has not identified any significant issues in relation to the risk identified.
Member data	• Member data not correct	• We 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. • We tested the key controls identified. • We reviewed the reconciliation of member numbers for each category by reference to starters, retirements, deferrals and other relevant changes and sought explanations for variances.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income to the fund is accounted for on an accruals basis	• The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. • Accounting policies are adequately disclosed in the financial statements.	●
Judgements and estimates	• Key estimates and judgements include; – Investment valuation – Promised value of future retirement benefits	• The policies adopted for accounting estimates are appropriate under the Fund's accounting framework • Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best available information. • The level of judgement required by the Fund is low . Estimates used are generally supported by adequate working papers. • Disclosure of accounting policies in the financial statements is in line with the recommended disclosures .	●
Other accounting policies	• We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	• Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	●

Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Misclassifications & disclosure changes

We noted that the fund had reclassified comparative figures for prior year expenditure within the draft fund account between 'administrative, governance and oversight expenses' and 'investment management expenses'. We have agreed with officers that the restatement was highly immaterial and therefore no restatement was required under accounting standards. Officers therefore reinstated the comparative figures used in the 2012/13 statement of accounts.

Our testing of purchases and sales of equity investments identified a number of purchase and sales transactions which had been double counted on the 'Shareholder' share management system. This was the result of recording of stock splits on that system. We have confirmed that the transactions had been recorded correctly in the general ledger. As the 'Shareholder' system was used to compile Note 13a, this has resulted in a reduction to purchases at cost of £28,652k and an reduction of sales proceeds to the same amount. The net position is therefore nil and does not affect the net assets position of the fund.

During the audit we also identified a number of narrative presentation and disclosure items in the financial statements and recommended additional disclosures to enhance the presentation of the financial statements. All amended disclosures have been agreed and applied in the Pension Fund accounts.

There are no unadjusted misstatements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

From the work we completed we did not identify any significant weaknesses in internal controls.

Assessment

- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Governance and Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fund audit	30,568	30,568
Total audit fees	**30,568**	**30,568**

Fees for other services

Service	Fees £
None	Nil

Independence and ethics

We confirm 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 we are independent and are able to express an objective opinion on the financial statements.

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

Section 4: Future developments

Developments relevant to your Pension Fund and the audit

Political	Environmental	Social	Technological
Developments relevant to the next financial year			
1. Financial reporting CIPFA has published best practice guidance relating to the identification and disclosure of administrative and investment management expenditure. This applies from 2014/15 and will enable consistent reporting across the LGPS facilitating more meaningful comparisons in this area. The definition is separated into three distinct categories of costs.	**2. Legislation** Under the Local Government Pension Scheme (LGPS 2014), pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Administering authorities will need to ensure their updated administration systems are calculating new pensions accruals correctly from 1 April 2014; dealing effectively with more complex data requirements and that new contribution rates are being correctly applied by employers.	**3. Actuarial valuation** Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.	**4. Other issues** The number of LGPS employers continues to grow as local authorities outsource services. Affected funds need to consider the impact this has on their exposure to risks and their investment strategies.
Developments relevant to future periods			
1. Financial reporting Changes to the Pension SORP may affect the investment disclosures in the Net Asset Statement and Fair Value determination (changing the classification from level 1, 2 & 3 to A, B & C). A revised SORP will be issued in 2014 and may find its way into the LG code in 2015/16.	**2. Legislation** From April 1 2015 The Pensions Regulator will have formal powers and responsibilities for oversight of the LGPS. This will include monitoring implementation of new governance arrangements, which require the creation of a scheme manager and pension board for each LGPS. The Administering Authority will need to determine how it will meet the requirement to have a pension board and the consequent changes it will need to make to its general governance arrangements.	**3. Structural reform** DCLG is consulting on the potential use of Collective Investment Vehicles and passive management of funds. The outcome of this consultation may lead to a change in administration of some schemes and significant changes in investment strategies.	**4. Other issues** The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.

Section 5: Communication of audit matters

Communication of audit matters to 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 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 Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these 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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KENT COUNTY COUNCIL

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of Kent County Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of Kent County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Corporate Director of Finance and Procurement and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Procurement's Responsibilities, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Procurement, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Darren Wells
Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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24 July 2014

Grant Thornton