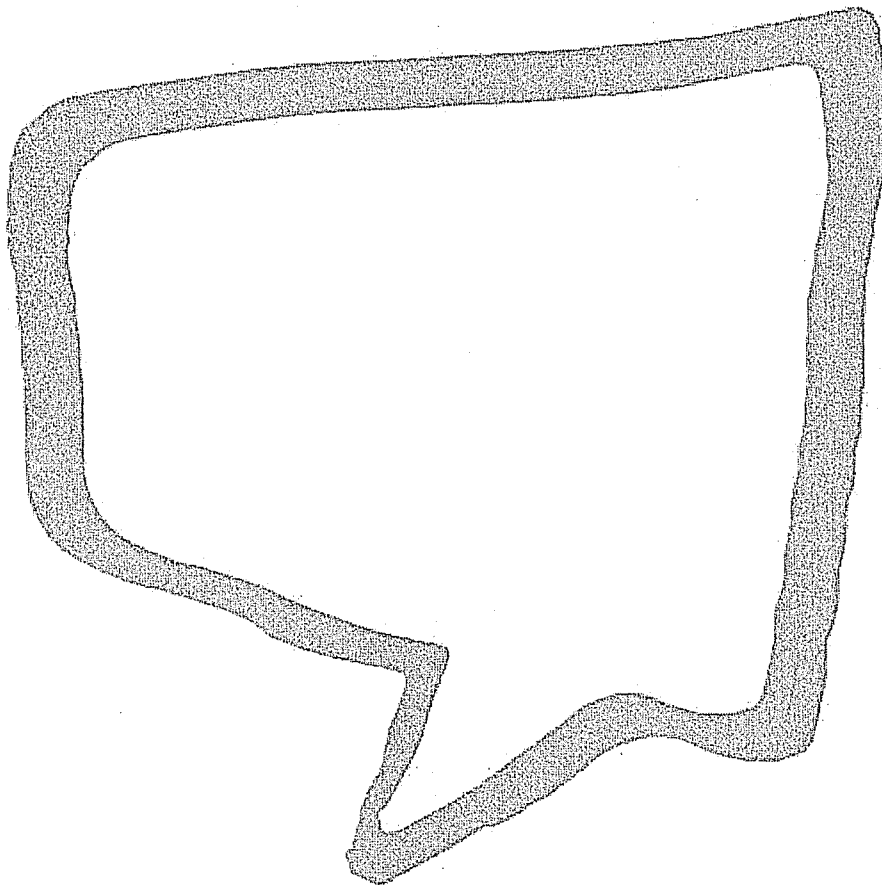


Superannuation Fund Audit Plan

Kent County Council

Audit 2008/09

February 2009



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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.
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Introduction

Background

- 1 This plan sets out the work we propose to undertake on the Superannuation Fund's financial statements for 2008/09. The plan is based on the Audit Commission's risk-based approach to audit planning which assesses the risks specifically associated with the Superannuation Fund.
- 2 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, from 2008/09 and this will be subject to audit. Kent County Council has followed this practice for a number of years.
- 3 The Superannuation Fund financial statements remain part of Kent County Council's overall financial statements and the Superannuation Fund Committee retains the responsibility for receiving, considering and agreeing the audit plans and receiving and considering any reports arising from the audit of the Fund.

Responsibilities

- 4 The Audit Commission's *Statement of responsibilities of auditors and of audited bodies* sets out the respective responsibilities of the auditor and Kent County Council as the administering body of the Superannuation Fund. The Audit Commission has issued a copy of the Statement to every audited body.
- 5 The Statement summarises where the different responsibilities of auditors and of the audited body begin and end, and our work is undertaken in the context of these responsibilities.
- 6 We comply with the statutory requirements governing our audit work, including the Audit Commission Act 1998 and the Code of Audit Practice (the Code).

Work under the Code of Audit Practice

- 7 We will carry out our audit of the financial statements in accordance with the International Standards on Auditing (UK and Ireland) (ISA) issued by the Auditing Practices Board (APB).
- 8 We are required to issue an opinion on the financial statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice (SoRP) on Local Authority Accounting in the United Kingdom 2008, the financial position of the Superannuation Fund as at 31 March 2009 and its income and expenditure for the year. We also audit the Superannuation Fund Annual Report.

Assessing risks

- 9 The Audit Commission is committed to targeting its work where it will have the greatest effect, based upon assessments of risk and performance. This means planning our audit work to address areas of risk relevant to our audit responsibilities.
- 10 We are required by professional auditing standards to specify the detailed risks that we need to consider as part of our opinion planning work and in doing so we:
- consider the risk of material misstatements in your accounts;
 - plan audit procedures to address these risks; and
 - ensure that the audit complies with all relevant auditing standards, including Practice Note 15 - 'The Audit of Occupational Pension Schemes in the United Kingdom'.
- 11 Our risk assessment process starts with the identification of the significant financial and operational risks applying to the Superannuation Fund to understand whether they give rise any risks of material misstatement (whether due to fraud or error) in the financial statements. We do this by a number of means of including:
- identifying the business risks facing the Fund, including assessing its risk management arrangements;
 - considering the financial performance of the Fund;
 - assessing internal controls including reviewing the general control environment, the IT control environment and internal audit.
 - considering technical guidance issued by the Audit Commission;
 - reviewing the results of previous and ongoing audit work; and
 - liaison with internal audit.
- 12 Our initial risk assessment and proposed audit response is set out below.

Table 1 Risk assessment

Potential risk area	Description of potential risk	Proposed audit response
Compliance with the Statement of Recommended Practice relating to the Superannuation Fund's financial statements	The financial statements are compiled incorrectly resulting in the provision of incorrect information to members and contributing bodies. Specifically consideration will be given to the accounting for the cash investments in Icelandic banks.	The format of the statements and the method of compilation will be reviewed to ensure that they are in accordance with the required framework.
Collection of contributions, payment of benefits and transfers in and out of the Superannuation Fund	The systems used might not generate the amounts and other key information contained within the financial statements are unreliable.	Material financial and information systems will be documented and key controls identified. These controls will be tested to ascertain the degree of reliance that can be placed on the systems for collection of contributions, payment of benefits and transfers into and out of the Fund.
Investment portfolio	The ownership and valuation of the portfolio as reported by the investment managers might not be correctly stated in the financial statements. Investment income received might not be completely and accurately recorded in the financial statements.	We will review the controls to ensure that information given by investment managers is accurately reflected in the general ledger. We will validate the total investment income due. Independent reports on investment managers' control arrangements will be reviewed to establish the effectiveness of their processes. Reconciliations between investment managers and custodian records will be reviewed.

Potential risk area	Description of potential risk	Proposed audit response
		The arrangements for formal monitoring of fund performance will be considered.
Investment management fees	Fees might not be paid in accordance with the contracted amounts.	Review the controls over the authorisation and payment of fees to ensure they accord with agreements.
Fraud and error	The Fund's financial statements might contain fraudulent and/or erroneous entries.	We will consider the arrangements adopted by the Superannuation Fund Committee and officers to prevent fraud and error impacting on the Fund's financial statements.
Annual Report	The Annual Report might be inconsistent with the financial statements resulting in the provision of incorrect information to members and contributing bodies.	A detailed check will be undertaken of the Annual Report before publication to check whether it is consistent with the financial statements and this will be reported in our opinion.

Request for information

13 External auditors are required to conduct their audit under the framework of the ISAs. In several instances these standards require auditors to formally seek information from management and the Superannuation Fund Committee as those charged with governance of the Fund. Set out below are those areas where we will seek a formal response from the Committee:

- in planning our audit of the Superannuation Fund financial statements, we are interested to understand the views of the Committee on the nature and extent of any significant internal and external operational, financial, compliance or other risks facing the Fund which might have an effect on the statements. If the Committee think such risks exist then we would ask for details and the likelihood of those risks materialising;
- whether the Committee has any knowledge of any actual, suspected or alleged fraud affecting the Superannuation Fund; and
- has the Committee been put on notice of any such possible instances of non-compliance with laws or regulations?

The audit fee

- 14 The broad details of the structure of scale fees are set out in the *Audit Commission's work programme and fee scales 2008/09*. Scale fees are based on a number of variables, including the type, size and location of the audited body.
- 15 The total indicative fee for the audit work on the Superannuation Fund included in this audit plan for 2008/09 is £55,600. The fee (plus VAT) will be charged in 4 equal instalments from March 2009 to June 2009.
- 16 The audit fee includes all work identified in this plan unless specifically excluded. In determining the fee we have made the following assumptions:
- the level of risk in relation to the Superannuation Fund audit is not significantly different from that last year;
 - you will inform us of significant developments impacting on our audit;
 - internal audit meets appropriate professional standards;
 - internal audit undertakes appropriate work on all systems that provide material figures in the financial statements sufficient that we can place reliance for the purposes of our audit;
 - the draft accounts are produced to the timetable set;
 - good quality working papers and records will be provided to support the financial statements at the same time as the statements are presented to us for audit;
 - requested information will be provided within agreed timescales; and
 - prompt responses will be provided to draft reports.
- 17 Where these assumptions are not met, we might be required to undertake additional work which is likely to result in an increased audit fee.
- 18 We are also required to review the fee as part of our detailed planning of the financial statements audit and will determine if:
- any new audit risks have emerged;
 - additional work is required of us by the Audit Commission; and
 - new work is required as a result of changes in legislation, professional standards or as a result of changes in financial reporting.

Process for agreeing any changes in audit fees

- 19 If we need to make any amendments to the audit fee during the course of this plan, we will firstly discuss this with the Director of Finance. We will then prepare a report outlining the reasons why the fee needs to change for discussion with the Superannuation Fund Committee.

Other information

The audit team

20 The key members of the team for the 2008/09 audit are shown in the table below.

Table 2 The audit team

Name	Contact details	Responsibilities
Darren Wells District Auditor	d-wells@audit-commission.gov.uk 08447986110	Responsible for the overall delivery of the audit including the quality of outputs, signing the opinion and conclusion, and liaison with the Chief Executive, the Governance and Audit Committee and the Superannuation Fund Committee.
Grahame Brown Audit Manager	g-brown@audit-commission.gov.uk 08447986107	Manages and co-ordinates the different elements of the audit work. Key point of contact for the Director of Finance and Head of Financial Services.
Jeremy Jacobs Team Leader	j-jacobs@audit-commission.gov.uk 01732 591350	Responsible for day-to-day of the audit of the Superannuation Fund and key point of liaison for the officers.

Independence and objectivity

21 We are not aware of any relationships that may affect the independence and objectivity of the District Auditor and the audit staff, which we are required by auditing and ethical standards to communicate to you. We comply with the ethical standards issued by the APB and with the Commission's requirements in respect of independence and objectivity as summarised at Appendix 1.

Planned outputs

- 22 Our reports will be discussed and agreed with the appropriate officers before being issued to the Governance & Audit Committee.

Table 3

Planned output	Indicative date
Superannuation Fund audit plan	February 2009
Opinion audit plan	April 2009
Annual governance report	July 2009
Opinion on the financial statements	July 2009
Superannuation Fund annual report audit	November 2009

Quality of service

- 23 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.
- 24 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.

Appendix 1 – Independence and objectivity

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 my 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).

The main requirements of the Code of Audit Practice, Standing Guidance for Auditors and the standards are summarised below:

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 and Audit Committee.

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.

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 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; and
- the District Auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.