

The Audit Plan for the Kent Superannuation Fund

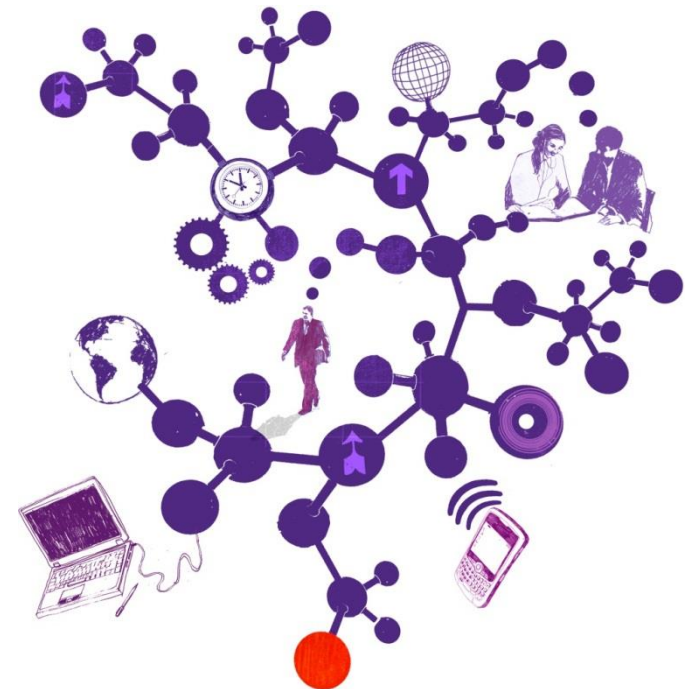
Year ended 31 March 2015

April 2015

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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.

1. Developments relevant to your business 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. LGPS 2014

- During 2013/14 funds have put in place procedures in readiness for implementation of the LGPS 2014 scheme from 1 April 2014. This has moved LGPS from a final salary scheme to a career average scheme one year ahead of other public sector schemes.
- Under this new scheme, the calculations of benefits are likely to be more complex, as are the arrangements for ensuring the correct payment of contributions.
- LGPS 2014 has put a greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

2. 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 2015, however the Superannuation Fund needs to ensure on-going compliance with the Code.

3. New governance arrangements

- The new governance regulations have introduced further changes for LGPS which take effect from April 2015. These introduce a Local Pension Board for each fund. These boards will work with the administering authority to help ensure compliance and effective governance and administration of the scheme. In addition the regulations also establish a National Scheme Advisory Board and a funding cap.
- There is a potential for overlap for many schemes between existing Pension Committees and the new Local Pension Boards, with a real challenge for administering authorities to meet the statutory requirements, but in a way which enhances the governance of the funds.

4. Accounting for Fund management costs

- The Code's only requirement for the disclosure of the costs of managing the pension fund is that management costs in relation to a retirement benefit plan are disclosed on the face of the fund account.
- CIPFA have recently produced guidance aimed at improving the transparency of management cost data and have suggested that funds should include in the notes to the accounts a breakdown of those management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.

Our response

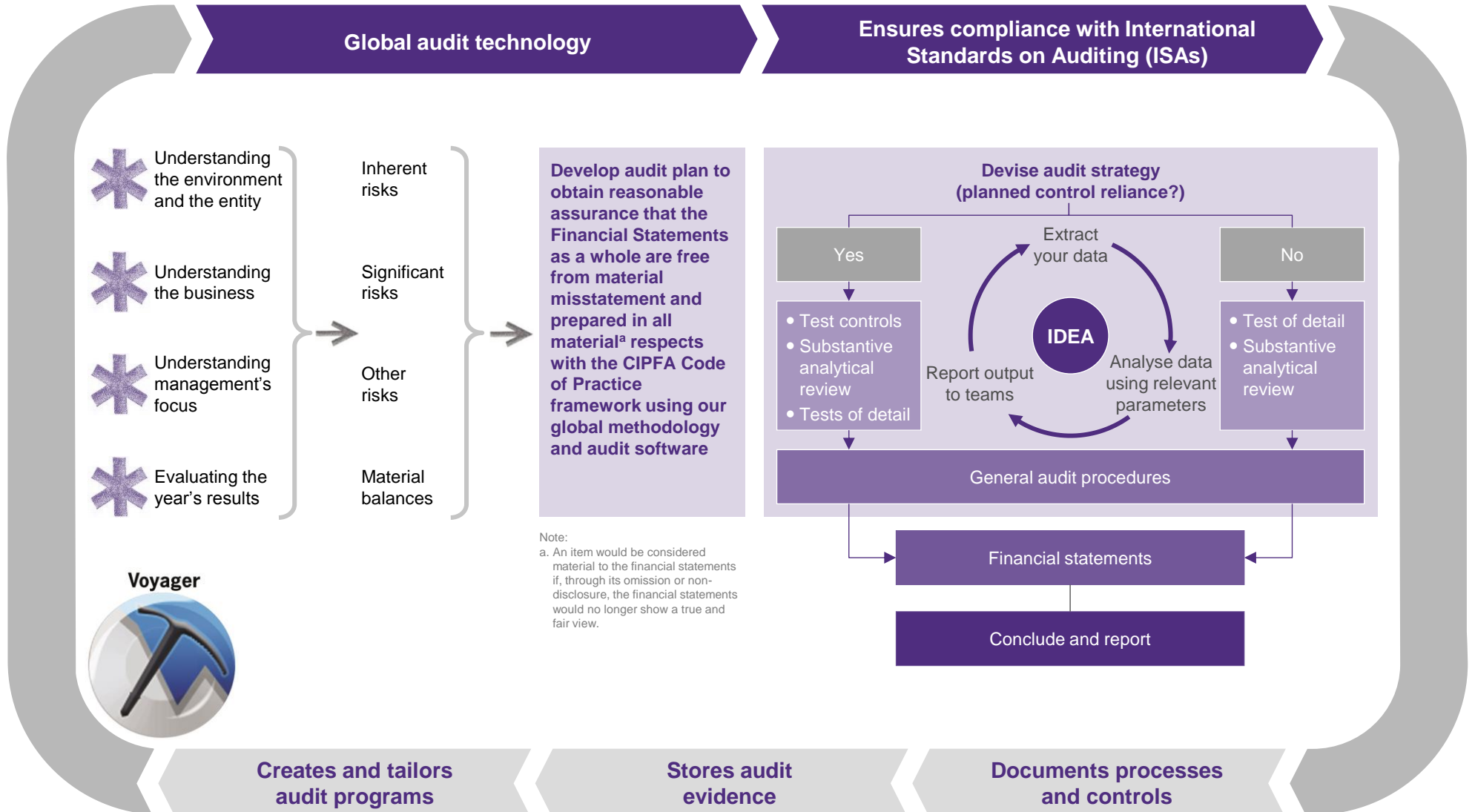
- We will consider changes made to the pensions administration control environment in response to LGPS data requirements.

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

- We will continue our on-going dialogue with officers around their governance arrangements.
- We will share good practice that is emerging with officers.

- We will discuss with officers any planned changes to the financial statements in response to this guidance.

2. Our audit approach



3. Significant risks identified

'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 outline the significant risks of material misstatement which we have identified. There first two risks below are the two presumed significant risks which are applicable to all audits under International Standards on Auditing:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA 240 and the nature of the revenue streams at the Kent Superannuation Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the use of independent custodians and fund managers minimises the risk of fraudulent financial reporting • the culture and ethical frameworks of local authorities, including Kent County Council, who act as the administrators of the Superannuation Fund, mean that all forms of fraud are seen as unacceptable.
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions
Level 3 investments (with prices where inputs are not based on observable market data) – valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgmental matters. Level 3 investments by their very nature require a significant degree of judgement and estimation uncertainty to reach an appropriate valuation at year end.	<p>Work planned:</p> <ul style="list-style-type: none"> • We will gain an understanding of management controls over the valuation of hard to value investments. We will also assess whether these controls have been implemented as expected and whether they are sufficient to mitigate the risk of material misstatement • For a sample of investments, testing valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period • A review of the nature and basis of estimated values

4. Other risks identified

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).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Risk Area	Risk Description	Audit Approach
Investment purchases and sales	Investment activity not valid (Valuation gross)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have undertaken a walkthrough of the controls in place over investments <p>Further work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Superannuation Fund's own records and seek explanations for variances
Investment values – Level 2 investments (with prices based on observable inputs other than quoted prices)	Valuation is incorrect (Valuation net)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have undertaken a walkthrough of the controls in place over investments <p>Further work planned:</p> <ul style="list-style-type: none"> We will review the reconciliation of information provided by the fund managers, the custodian and the Superannuation Fund's own records and seek explanations for variances
Contributions	Recorded contributions not correct (Occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have undertaken a walkthrough of the controls in place over contributions <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over occurrence, completeness and accuracy of contributions Testing of a sample of contributions to source data to gain assurance over their accuracy and occurrence We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained

4. Other risks identified (continued)

Risk Area	Risk Description	Audit Approach
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have undertaken a walkthrough of the controls in place over benefits payable Controls testing over completeness, accuracy and occurrence of new new benefit payments to month 10 <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing to cover the period to year end Testing of a sample of individual pensions in payment by reference to member files We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <ul style="list-style-type: none"> We have undertaken a walkthrough of the controls in place over member data Controls testing over annual/monthly reconciliations and verifications with individual members to month 10 <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing to cover the period to year end Sample testing of changes to member data made during the year to source documentation

5. Results of interim audit work

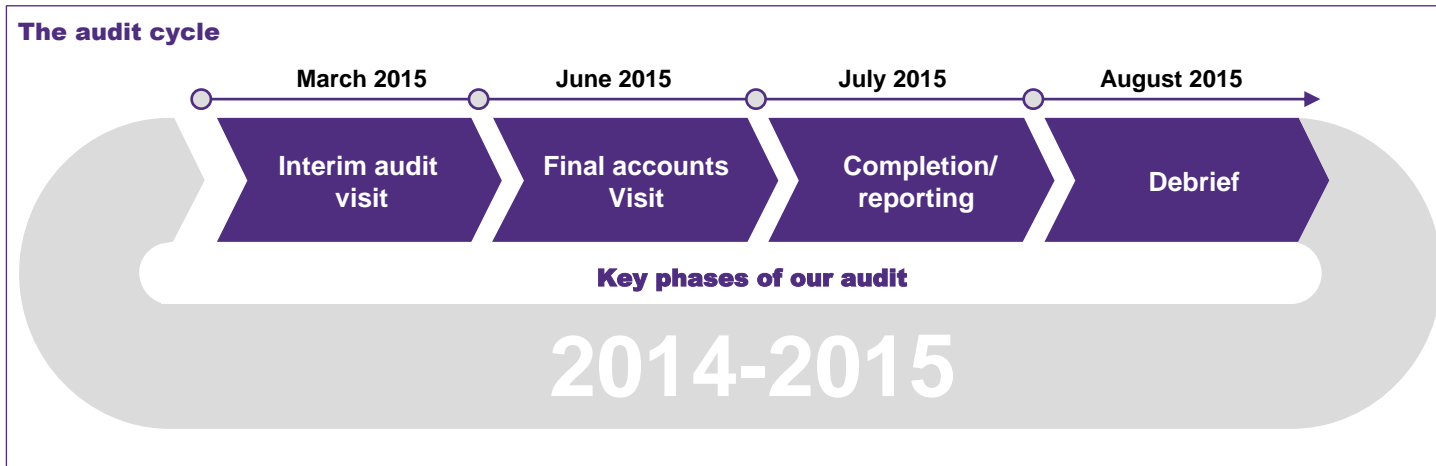
The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed and findings	Conclusion
Internal audit	<p>We have yet to complete our high level review of internal audit's overall arrangements. Our work to date has not identified any issues which we wish to bring to your attention.</p> <p>We are also yet to finalise our consideration of IA's review of the Superannuation Fund's key financial systems. As yet we have not identified any significant weaknesses impacting on our responsibilities.</p>	<p>Our work in this area remains in progress.</p> <p>If we do identify any weaknesses we will discuss them with management and report on the outcome in our Audit Findings Report.</p>
Walkthrough testing	<p>We have completed walkthrough tests of controls operating 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>	<p>Our work has not identified any weaknesses which impact on our audit approach.</p>
Entity level controls	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements.</p>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Superannuation Fund's financial statements.</p>

5. Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology controls	We will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system, undertaken as part of the main Council audit.	Work is in progress and any findings will be included in our Audit Findings Report.
Journal entry controls	We have reviewed the Superannuation Fund's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Superannuation Fund's control environment or financial statements. We will test any journals raised during 2014/15 that we determine to be large and/or unusual.	This testing will be undertaken as part of our substantive procedures. The results of this work will be included in our Audit Findings Report.

6. Key dates



Date	Activity
February 2015	Planning
March 2015	Interim site visit
29 April 2015	Presentation of audit plan to Governance & Audit Committee
8 – 26 June 2015	Year end fieldwork
24 June 2015	Audit findings clearance meeting
23 July 2015	Report audit findings to Governance & Audit Committee
23 July 2015	Sign financial statements opinion

7. Fees and independence

Fees

	£
Pension Fund scale fee	30,568
Total fees (excluding VAT)	30,568

Our fee assumptions include:

- 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, 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

Fees for other services

Service	Fees £
None	Nil

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

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.

8. 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 Superannuation 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 Superannuation Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of those charged with governance 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 Superannuation Fund is fulfilling these responsibilities.

	Audit plan	Audit findings
Our communication plan		
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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