

The Audit Findings for Kent Superannuation Fund

Year ended 31 March 2015

July 2015

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July 2015

Dear Sirs

Audit Findings for Kent Superannuation Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Kent Superannuation Fund, the Governance and Audit Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

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

Yours sincerely

Emily Hill

for and on behalf of Grant Thornton UK LLP

Chartered Accountants

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Section 1: Executive summary

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Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of Kent Superannuation Fund's (the Fund) financial statements for the year ended 31 March 2015. 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 260 (ISA UK&I).

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 and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have had to alter our planned audit approach, which we communicated to you in our Audit Plan dated 29 April 2015. Specifically, we have had to undertake procedures in relation to the appointment of a new fund manager and the subsequent cash commitment of in excess of £200m undertaken during 2014/15. In accordance with the definition on page 9 of this report, we have deemed this risk to represent a non-routine transaction and as such have classified it as a significant risk. The procedures we undertook in response to this risk are documented on page 13, along with our findings.

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

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

- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion
- review of the final version of the Pension Fund annual report, and
- final senior management and specialist partner review

Key issues arising from our audit

Financial statements opinion

We have identified no adjustments affecting recorded net assets per the draft accounts. The draft financial statements for the year ended 31 March 2015 recorded net assets of £4,539,037k and the audited financial statements record the same outcome.

There were no significant issues arising from our work.

We have not identified any adjustments affecting the Fund's reported financial position. Further details are provided in section 2 of this report. We have agreed with officers some minor adjustments to improve the presentation of the financial statements, as well as to fully reflect your outstanding investment commitments as at year end.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

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 report these to the Council as the administering authority.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention.

The way forward

Matters arising from the financial statements audit have been discussed with the Corporate Director of Finance and Procurement and the finance team.

Acknowledgment

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 2015

Section 2: Audit findings

01. Executive summary

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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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Governance & Audit on 29 April 2015. We also set out the adjustments to the financial statements arising 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 on 29 April 2015 except for the additional risk we identified which is set out on page 13.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix A.

We have yet to receive a copy of the final version of the Fund's Annual Report. The draft wording of our proposed opinion on the financial statements in the Annual Report is set out in Appendix B. We will confirm the wording of this opinion on review of the final version of the Annual Report.

Audit findings against significant risks

"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. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 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, the first two risks 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.	<p>Improper revenue recognition</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition</p>	<p>We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls</p>	<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 	<p>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.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	<p>Level 3 investments (with prices where inputs are not based on observable market data) – valuation is incorrect</p>	<ul style="list-style-type: none"> • Gain an understanding of management controls over the valuation of hard to value investments. Assessment of 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 of these investments 	<p>Our audit work has not identified any issues in respect of the risk identified.</p>

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 risk	Work completed	Assurance gained & issues arising
Investment purchases and sales	Investment activity not valid (Valuation gross)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • A walkthrough of the controls in place over investments • A review of the reconciliation of information provided by the fund managers, the custodian and the Superannuation Fund's own records and sought explanations for variances 	Our audit work has not identified any issues in respect of the risk identified.
Investment values – Level 2 investments (with prices based on observable inputs other than quoted prices)	Valuation is incorrect (Valuation net)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • A walkthrough of the controls in place over investments • A review of the reconciliation of information provided by the fund managers, the custodian and the Superannuation Fund's own records and sought explanations for variances 	Our audit work has not identified any issues in respect of the risk identified.
Contributions	Recorded contributions not correct (Occurrence)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • A walkthrough of the controls in place over contributions • 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 • Rationalisation of contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends are satisfactorily explained 	Our audit work has not identified any issues in respect of the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Benefits payable</p>	<p>Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • A walkthrough of the controls in place over benefits payable • Controls testing over completeness, accuracy and occurrence of new benefit payments during the year • Testing of a sample of individual pensions in payment by reference to member files • Rationalisation of pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained 	<p>Our audit work has not identified any issues in respect of the risk identified.</p>
<p>Member Data</p>	<p>Member data not correct. (Rights and Obligations)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • A walkthrough of the controls in place over member data • Controls testing over annual/monthly reconciliations and verifications with individual members • Sample testing of changes to member data made during the year to source documentation 	<p>Our audit work has not identified any issues in respect of the risk identified.</p>



New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan



	Issue	Commentary
1.	<p>Reallocation of funds to new fund manager During 2014/15 you appointed a new fund manager (Woodford) and subsequently committed in excess of £200m during the year. The market value of these assets was £216m per the draft accounts. As a non-routine transaction (due to its infrequency and size), there was an increased risk of asset misappropriation.</p>	<p>We have undertaken the following procedures in response to this risk:</p> <ul style="list-style-type: none"> • We have identified the controls put in place by management to ensure there was no misappropriation of assets in the course of the withdrawal of funds from a previous fund manager and the £200m initial investment in Woodford. • We also assessed whether these controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement. <p>We have also undertaken a series of substantive procedures specifically to address this risk, comprising:</p> <ul style="list-style-type: none"> • Agreement of the investment balances to year end valuation reports provided by the fund managers • Review and testing of the year end reconciliation of investment assets held by the custodian with the reports provided by the fund managers. <p>Our audit work has not identified any issues in respect of the risk identified. .</p>

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
<p>Revenue recognition</p>	<p>The financial statements include policies for recognition of the following:</p> <ul style="list-style-type: none"> • Investment income • Contribution income • Transfers in to the scheme <p>Revenue for the first two categories is recognised on an accruals basis, whilst for the third category it is recognised on a cash basis, with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement.</p>	<p>Review of your policies for revenue recognition confirms they are in line with the requirements of the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activities. Our testing has confirmed that these policies have been correctly and consistently applied.</p>	
<p>Estimates and judgements</p>	<p>Key estimates and judgements include:</p> <ul style="list-style-type: none"> • Valuation of private equity and infrastructure investments • Present value of future retirement benefits 	<p>Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund. Our testing has confirmed that the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied.</p>	

Assessment

-  Marginal accounting policy which could potentially attract attention from regulators
-  Accounting policy appropriate and disclosures sufficient

-  Accounting policy appropriate but scope for improved disclosure

Accounting policies, estimates & judgements continued

Accounting area	Summary of policy	Comments	Assessment
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	We have agreed with management to include an accounting policy on contingent liabilities in the revised financial statements. Our review of accounting policies has not highlighted any other 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

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Governance and Audit Committee and 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	<ul style="list-style-type: none"> We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Fund.
4.	Disclosures	<ul style="list-style-type: none"> Our review found no non-trivial omissions in the financial statements.
5.	Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related party transactions which have not been disclosed.
6.	Confirmation requests from third parties	<ul style="list-style-type: none"> We obtained direct confirmations from your fund managers and custodian for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). All of these requests have been returned with positive confirmation.
7.	Going concern	<ul style="list-style-type: none"> Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Internal controls

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

Our audit included consideration of internal controls 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. We considered and walked through the internal controls for contributions, investments, benefit payments and member data as set out on pages 11-12.

The controls were found to be operating effectively and we have no matters to report to the Governance and Audit Committee.

Adjusted and unadjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There were no adjusted or unadjusted misstatements identified as a result of our procedures.

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Disclosure	63,700	Note 8 - Payments to and on account of leavers	During the year you had a large bulk transfer out of the scheme to the Greater Manchester Pension Fund. Given its exceptional nature and size, we requested you make a separate disclosure in of this transaction in your revised accounts.
2 Disclosure	n/a	Note 20 – Actuarial Present Value of Promised Retirement Benefits	The version of this note in the draft financial statements did not include prior year comparators for each of the fair value of scheme assets and net liability of the Fund as at the year-end date. This has been corrected in the revised version of the accounts.
3 Disclosure	n/a	Note 24 - Related Party Transactions	To ensure compliance with the CIPFA Code of Practice, you have included the appropriate key management personnel of the pension fund and referenced to disclosure of officer remuneration in the local authority financial statements in the revised version of this note.
4 Disclosure	12,300	Note 25 – Contingent Liabilities and Contractual Commitments	Our testing identified an outstanding commitment at year end with one of your fund managers of which you were aware, but which was inadvertently omitted from the draft financial statements.

Section 3: Fees, non-audit services and independence

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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 £
Pension fund scale fee	30,568	30,568
Total audit fees	30,568	30,568

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 Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 4: Communication of audit matters

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Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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 Council'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 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 of Audit Practice.

It is the responsibility of the Council 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 Council 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 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 – pension fund financial statements

We anticipate we will provide the Council with an unmodified audit report on the Pension Fund.

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

We have audited the pension fund financial statements of Kent County Council for the year ended 31 March 2015 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 2014/15.

This report is made solely to the members of Kent County Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Responsibilities of the Corporate Director of Finance and Procurement, the Corporate Director of Finance and Procurement is responsible for the preparation of the Authority's Statement of Accounts, which include 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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 pension 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 pension fund financial statements. In addition, we read all the financial and non-financial information in the foreword to identify material inconsistencies with the audited pension fund 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 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015 and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

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

Emily Hill
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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23 July 2015

Appendix B: Audit opinion – pension fund annual report

We anticipate that we will provide the Fund with an unmodified opinion for the pension fund annual report.

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF KENT COUNTY COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE PENSION FUND ANNUAL REPORT

We have examined the pension fund financial statements for the year ended 31 March 2015, which comprise the Fund Account, the Net Assets Statement and the related notes.

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. Our work has been undertaken so that we might state to the members of the authority those matters we are required to state to them in an auditor's statement and for no other purpose. 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 auditor

As explained more fully in the Statement of Responsibilities of the Corporate Director of Finance and Procurement, the Corporate Director of Finance and Procurement is responsible for the preparation of the superannuation fund financial statements, in accordance with applicable United Kingdom law.

Our responsibility is to state to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the Statement of Accounts of Kent County Council, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In addition we read the other information contained in the pension fund annual report and consider the implications for our statement if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of the Introduction and Overview, Investments, Administration, Actuary Report, Funding Strategy Statement, Statement of Investment Principles, Governance Compliance Statement and the Communications Policy Statement.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual Statement of Accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included within the annual Statement of Accounts of Kent County Council for the year ended 31 March 2015 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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23 July 2015



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