



# External Audit Plan

*Year ending 31 March 2020*

Kent Pension Fund  
May 2020



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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 planning 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 Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# 1. Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Kent Pension Fund ('the Pension Fund') for those charged with governance.

## Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Kent Pension Fund. We draw your attention to both of these documents on the [PSAA website](#).

## Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance, the Governance and Audit Committee.

The audit of the financial statements does not relieve management or the Governance and Audit Committee of your responsibilities. It is the responsibility of the Pension 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 Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

## Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- The revenue cycle includes fraudulent transactions (rebutted)
- Management override of controls
- Valuation of Level 3 Investments (Annual revaluation)
- Valuation of Directly Held Property (Level 2 Investment) (Annual revaluation)
- Covid-19

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

## Materiality

We have determined materiality at the planning stage of our audit to be £62m (PY £58m) for the Pension Fund, which equates to 1% of your prior year net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £3.1m (PY £2.9m).

## Audit logistics

Our interim visit took place in March 2020 and our final visit is currently planned to take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £37,037 (PY: £24,337) for the Pension Fund, subject to the Pension Fund meeting our requirements as set out on page 14. The reason for the fee increase is also explained on page 15.

## Independence

We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

## 2. Key matters impacting our audit

### Factors

#### The wider picture and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures.

The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these but have 74% of the members.

In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists.

#### Governance

The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.

SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.

tPR continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

### Our response

We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.

We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.

We will consider the impact of any data issues raised as part of the 2019 valuation on the risks identified as part of our 2019/20 audit.

## 2. Key matters impacting our audit

### Factors

#### Woodford Equity Income Fund

As at 31 March 2019, the Pension Fund held an investment in the Woodford Equity Income Fund with a value of £259m. In June 2019 the fund was suspended and in October 2019 the decision was taken by the Authorised Corporate Director of the fund to wind it up. A first payment from the fund was made in January 2020 with a second payment expected following the sale of the remaining assets in the fund.

Internal Audit carried out a review of the controls around the Superannuation Fund Committee's investment decision making resulting in a 'limited' assurance conclusion. They made a series of recommendations.

#### Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix A.

Our work in 2018/19 has highlighted areas where financial reporting, in particular Level 3 and Financial Instrument investment valuations and disclosures, needs to be improved, with a corresponding increase in audit procedures.

#### COVID 19

The COVID 19 global pandemic is impacting how people work. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales.

### Our response

We will review the accounting for the movements on the investment in the fund, the management assessment of the year end valuation and any related disclosures.

We will discuss with management and the internal auditors the progress made against the Internal Audit recommendations.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Corporate Director Finance and is subject to PSAA agreement.

Since early March, we have been liaising with members of your finance team to discuss how we can work together effectively to deliver the audit despite the restrictions on unnecessary physical interaction.

All of our staff are set up to work remotely and we use a variety of tools to communicate and share information such as Microsoft Teams and Inflo.

We have reviewed the materiality levels we determined for the audit. We did not identify any changes to our materiality assessment as a result of the risk identified due to Covid-19.

We will communicate with management as the situation develops and provide further communications to the Authority as necessary.

### 3. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>The revenue cycle includes fraudulent transactions (rebutted)</b></p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. 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 ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Kent Pension Fund, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Kent Pension Fund.</p>	
<p><b>Management over-ride of controls</b></p>	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

### 3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of Level 3 Investments (Annual revaluation)</b>	<p>The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes for valuing Level 3 investments</li> <li>• review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met</li> <li>• independently request year-end confirmations from investment managers and the custodian</li> <li>• for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> </ul>
<b>Valuation of Directly Held Property (Level 2 Investment) (Annual revaluation)</b>	<p>The Fund revalues its directly held property on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2020.</p> <p>We therefore identified valuation of directly held property, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work</li> <li>• independently request year-end confirmations from investment managers and the custodian</li> <li>• evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• write to the valuer to confirm or investment manager the basis on which the valuations were carried out</li> <li>• challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding and engage our own valuer to assess the instructions to the Fund's valuer, the Fund's valuer's report and the assumptions that underpin the valuation.</li> <li>• test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Fund's financial records</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> </ul>

### 3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<p><b>Covid-19</b></p>	<p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <p>Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</p> <p>Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</p> <p>Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</p> <p>Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</p> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances</li> <li>• Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

## 4. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Actuarial Present Value of Promised Retirement Benefits</b>	<p>The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as an other risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• update our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls;</li> <li>• evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assess the competence, capabilities and objectivity of the actuary who carried out the Fund's pension fund valuation;</li> <li>• assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;</li> <li>• test the consistency of disclosures with the actuarial report from the actuary;</li> <li>• undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;</li> </ul>

## 4. Other risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Contributions</b>	<p>Contributions from employers and employees' represents a significant percentage of the Fund's revenue.</p> <p>We therefore identified the completeness and accuracy of the transfer of contributions as a risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the Fund's accounting policy for recognition of contributions for appropriateness;</li> <li>• gain an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls;</li> <li>• agree changes in Admitted/Scheduled bodies to supporting documentation and agree total contributions for each employer to employer contributions reports</li> <li>• test a sample of contributions to source data to gain assurance over their accuracy and occurrence; and</li> <li>• test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.</li> </ul>
<b>Pension Benefits Payable</b>	<p>Pension benefits payable represents a significant percentage of the Fund's expenditure.</p> <p>We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;</li> <li>• gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls;</li> <li>• test a sample of lump sums and associated individual pensions in payment by reference to member files;</li> <li>• sample testing over, completeness, accuracy and occurrence of benefit payments</li> <li>• test relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.</li> </ul>
<b>Woodford investment</b>	<p>As at 31 March 2019, the Pension Fund held an investment in the Woodford Equity Income Fund with a value of £259m. In June 2019 the fund was suspended and in October 2019 the decision was taken by the Authorised Corporate Director of the fund to wind it up. A first payment from the fund was made in January 2020.</p> <p>We therefore identified a risk with accounting for the movements and the valuation of the fund.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• review the accounting for the movements on the investment in the fund, the management assessment of the year end valuation.</li> </ul>

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report.

## 5. Other matters

### Other work

The Pension Fund is administered by Kent County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.

We consider our other duties under legislation and the Code, as and when required, including:

- Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
- Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
- Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
- Issuing an advisory notice under Section 29 of the Act.
- We will consider whether or not the loss of funds related to Woodford Equity Income Fund raises any matter we may want to consider in the context of our statutory duties.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

### Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

### Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Pension Fund's ability to continue as a going concern" (ISA (UK) 570).

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

## 6. Materiality

### The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

### Materiality for planning purposes

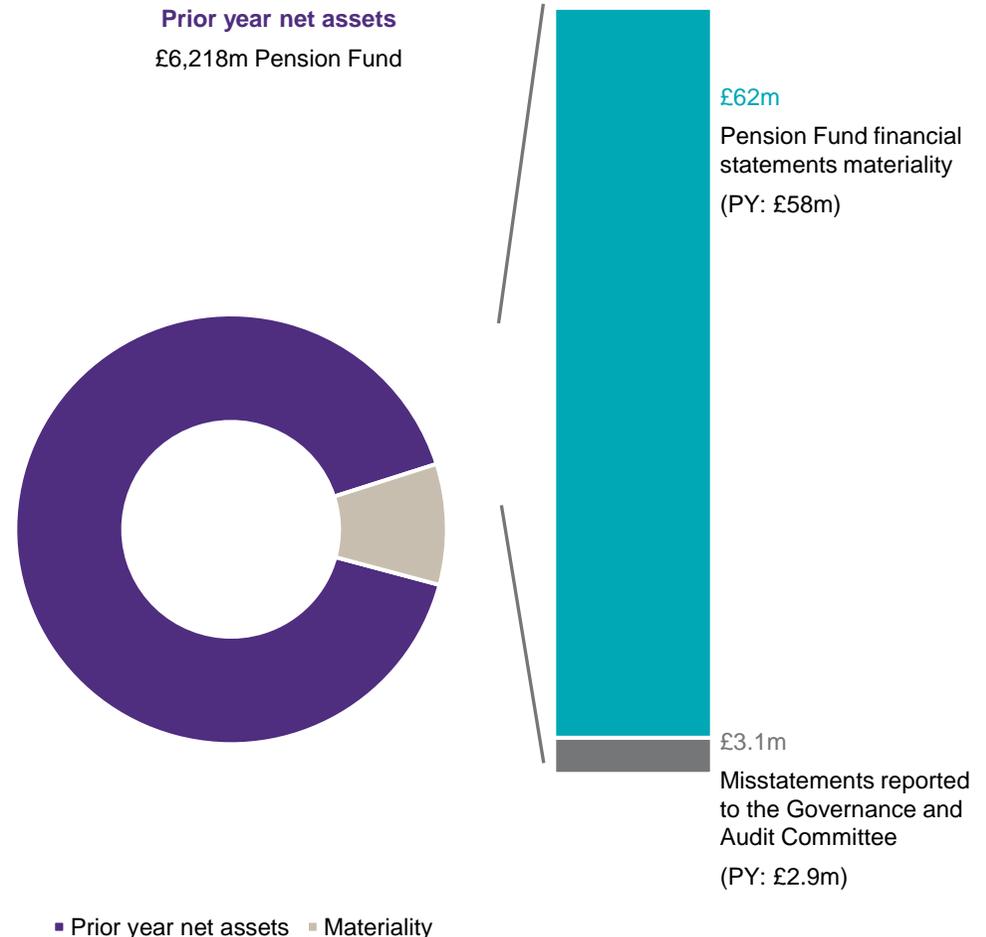
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £62m (PY £58m) for the Pension Fund, which equates to 1% of your prior year net assets for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

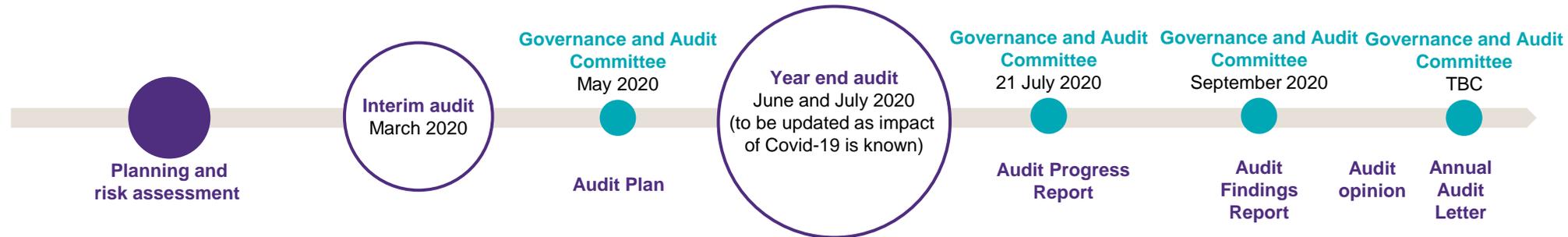
### Matters we will report to the Governance and Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £3.1m (PY £2.9m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Governance and Audit Committee to assist it in fulfilling its governance responsibilities.



## 7. Audit logistics & team



### Paul Dossett, Key Audit Partner

Responsible for overall quality control; accounts opinions; final authorisation of reports; liaison with the Committee.



### Tina James, Audit Manager

Responsible for overall audit management, quality assurance of audit work and liaison with the Committee.

### Tosin Orekoya Audit Incharge

Tosin will lead the onsite team and will be the day to day contact for the audit. Tosin will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments

### Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

## 8. Audit fees

### Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government pension fund financial reporting, in particular, scrutiny of the valuation of hard to value investments needs to be improved. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Corporate Director Finance and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
<b>Pension Fund Audit</b>	£30,568	£23,537	£37,037
<b>Assessing the impact of the McCloud ruling</b>		£800	
<b>Total audit fees (excluding VAT)</b>	<b>£30,568</b>	<b>£24,337</b>	<b>£37,037</b>

### Assumptions:

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
<b>Scale fee</b>	23,537	
<b>Raising the bar</b>	2,500	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
<b>Valuation of level 3 investments</b>	1,750	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
<b>Directly held property – work of experts</b>	6,750	We have therefore engaged our own audit expert and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin directly held property valuations. The fee increase includes the cost of the auditors expert of £5,000.
<b>Review of Woodford accounting</b>	2,500	The Pension Fund has an investment in the Woodford Equity Income fund which is in the process of being wound up. To date a payment of £138.9m has been announced by the administrators and further payments are possible. We will incorporate review of the accounting for the movements in the fund value and subsequent transactions. Since the fund was put into administration Internal Audit have undertaken a review of the governance arrangements for investments. We will review the outcome of the review and the Fund's response.
<b>Revised scale fee (to be approved by PSAA)</b>	<b>37,037</b>	

## 9. Independence & non-audit services

### Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Standard and we as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

### Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following other services were identified.

Service	£		Threats	Safeguards
<b>Audit related:</b>				
Provision of IAS 19 Assurances to Scheme Employer auditors	11,000	As auditor of the pension fund we are required to provide assurance to the auditors of admitted bodies. This is an additional requirement this year in addition to the work required to provide assurance for the pension fund financial statements. As this additional work is to support the IAS 19 for admitted bodies, the Pension Fund will need to determine whether to recharge the cost to these bodies.	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £11,000 in comparison to the total scale fee for the audit of £23,537 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
		£3,000 fixed fee plus £500 per admitted body letter (expected to be 16)		

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Governance and Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - <https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf>

# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Pension Fund of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Pension Fund financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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