

## Audit Adjustments - Addendum

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Misclassification and 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.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
<b>Critical Judgements</b>	<ul style="list-style-type: none"> <li>The Council have disclosed a number of critical judgements within the statement of accounts that are not material to the accounts. IAS1 states that an entity shall disclose the judgements that have the most significant effect on the amount recognized in the accounts. Whilst these are not misleading to the reader of the accounts and do not impact on the figures reported it is the consideration of the audit that they do not have a material impact on the figures in the accounts. Therefore it is considered that the disclosures are not in line with the requirements of the code and IAS1.</li> </ul>	<ul style="list-style-type: none"> <li>The Council should review all critical judgements against the requirements of the code and IAS1 to ensure compliance and whether these should be disclosed in the statement of accounts</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council shall review, in future years, the relevance and validity of each judgement to ensure the appropriateness of the disclosures</li> </ul>	X
<b>Estimates</b>	<ul style="list-style-type: none"> <li>The Council have disclosed a number of critical judgements within the statement of accounts that are not material to the accounts. IAS1 states that an entity shall disclose information about the assumptions it makes about the future, and other major sources of estimation uncertainty, that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Whilst these are not misleading to the reader of the accounts and do not impact on the figures reported it is the consideration of the audit that they do not have a material impact on the figures in the accounts. Therefore it is considered that the disclosures are not in line with the requirements of the code and IAS1.</li> </ul>	<ul style="list-style-type: none"> <li>The Council should review all Estimates against the requirements of the code and IAS1 to ensure compliance and whether these should be disclosed in the statement of accounts</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council shall review, in future years, the relevance and validity of each estimate to ensure the appropriateness of the disclosures</li> </ul>	X
<b>IFRS15</b>	<ul style="list-style-type: none"> <li>The introduction of IFRS15 has required a number of disclosures within the statement of accounts. Whilst the Council has substantially complied with the requirements of the code and the accounting standard there are a number of disclosures that have not been included. Audit has reviewed the balances disclosed in the statement of accounts and considers that these are fairly stated.</li> </ul>	<ul style="list-style-type: none"> <li>The Council should review the requirements of IFRS15 and consider the impact on the 2019-20 accounts at an early stage in the process. We will work with the Council to identify these requirements and ensure compliance with the Code</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>This is a new requirement of the code for 2018/19. The Council appreciates the comments made that we substantially complied with the Code and will work with our auditors on any additional disclosure requirements for 2019/20</li> </ul>	X
<b>Financial Instruments – PWLB</b>	<ul style="list-style-type: none"> <li>The Council have disclosed the value of PWLB loans at fair value using the repayment rate as provided by ArlingClose as management's expert. As per IFRS13 the fair value of financial liabilities should be calculated on a market based measurement and not an entity-specific measurement. It is the opinion of the audit that the use of the repayment rate is incorrect as this rate is available only to the Council. We have reviewed and recalculated the fair value of liabilities, based on market inputs, and the variance is not material</li> </ul>	<ul style="list-style-type: none"> <li>The Council should review the calculation basis of the fair value of the PWLB liability to take account of market inputs.</li> </ul> <p><b>Management response</b></p> <ul style="list-style-type: none"> <li>The Council commissions experts to provide the information of fair values, who interpret the requirements of the Code. Therefore, this is a difference in professional estimation. This is a disclosure only impact and does not affect the balance sheet. The Council shall consider the differences and review when applying to the accounts for 2019/20</li> </ul>	X

## Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

### Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £76,902. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

### Update to our risk assessment – Additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment. **As these fees have not been finalised at this stage they are not included within the audit fee disclosed within the statement of accounts.**

### Estimated additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud Ruling	June – July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statement along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	3,000
Pensions – IAS 19	June-July 2019	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.	3,000
PPE Valuation – work of experts	June-July 2019	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE Valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
VFM conclusion a) The audit team	Sept 2018-July 2019	Additional scrutiny of VFM financial resilience arrangements during the 2018/19 audit cycle including monthly meetings with the Director of Finance	10,800
b) The auditors expert	August 2019		

### Total Audit Fees

Audit fee	Actual 2017/18* fee £	Planned 2018/19 fee £	Final 2018/19 fee £
Council Audit	99,873	76,902	76,902
Additional Audit Fee (see above)	11,336	TBC	TBC
<b>Total audit fees (excl VAT)</b>	<b>111,209</b>	<b>TBC</b>	<b>TBC</b>

### Non Audit Fees

Fees for other services	Fees £
<b>Audit related services:</b>	
Certification Audit	7,950
<b>Total fees for other services</b>	<b>7,950</b>

Note the £11k for additional fees for 2017/18 have been recognised in the 2018/19 financial statements. A further £16k of audit related fees are recognised in the 2018/19 financial statements representing certification audit work for both 2017/18 and 2018/19. This explains the difference between the total external audit fee above and that disclosed in the 2018/19 financial statements.

# Audit Fees

We confirm below our final proposed fees charged for the audit.

## Planned Audit Fees

Our Audit Plan included a PSAA published scale fee for 2018/19 of £18,371. Our audit approach, including the risk assessment, continues as the year progresses and fees are reviewed and updated as necessary as our work progresses.

## Update to our risk assessment additional work in respect of the audit code

The table below sets out the additional work which we have undertaken to complete the audit, along with the impact on the audit fee where possible. Please note that these proposed additional fees are estimates based on our best projection of work and will be subject to approval by PSAA in line with the Terms of Appointment. **As these fees have not been finalised at this stage they are not included within the audit fee disclosed within the statement of accounts.**

## Additional Audit Fees

Area of work	Timing	Comment	£
Assessing the impact of the McCloud ruling	June-July 2019	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we considered the impact on the financial statements along with any audit reporting requirements. This included consultation with our own internal actuary in their capacity as an auditor expert.	1,500

## Total Audit Fees

	Actual 2017/18 fee £	Proposed 2018/19 fee £	Final 2018/19 fee £
<b>Pension Fund Audit</b>	23,859	18,371	18,371
<b>Additional Audit Fees (see above)</b>			1,500
<b>Total audit fees (excluding VAT)</b>	<b>23,859</b>	<b>18,371</b>	<b>19,871</b>

## Audit Related Services Fees

In addition to the audit fees we set out below our final proposed fees for audit related services provided during the course of our audit. **As these fees have not been finalised at this stage they are not included within the audit fee disclosed within the statement of accounts.**

Audit related	£	Description
<p><b>IAS 19 assurance letters to other auditors</b>            In addition to the audit of the main financial statements, we are also responsible for the audit of the Pension Fund. In that capacity, we have been contacted by the audits of <b>8</b> other local authorities who are admitted bodies of the pension scheme to provide assurance in terms of our work on the Pension Fund audit. Both PSAA, in the Terms of Appointment, and the National Audit Office, in its Auditor Guidance Notes, expects that auditors will cooperate with other local government auditors and therefore we are required to respond.</p> <p>We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations.</p>	£7,000	<p>The Financial Reporting Council has highlighted that the quality and scope of work by audit firms in respect of IAS 19 assurance letters needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year.</p> <p>Historically the cost of this work has been absorbed within the audit fee of the administering and admitted bodies. Given the lower fees we are now recovering the cost of this extra work through an additional invoice to Somerset Pension Fund. It will be for the Pension Fund to determine any appropriate recharges. For 2018/19 IAS 19 letters of assurance were provided to the following admitted bodies of Somerset Pension Fund.:</p> <ul style="list-style-type: none"> <li>• Somerset County Council</li> <li>• South Somerset District Council</li> <li>• Mendip District Council</li> <li>• Sedgemoor District Council</li> <li>• Taunton Deane District Council</li> <li>• West Somerset District Council</li> <li>• Exmoor National Park</li> <li>• Avon and Somerset Police and Crime Commissioner</li> </ul> <p>Our estimate is that the fee for this will be £3,000 plus an additional £500 for each local government body which requests a letter of assurance.</p>