

# The Audit Findings for Somerset Pension Fund

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Year ended 31 March 2019

22 July 2019



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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 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 control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Somerset Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance (in the case of Somerset Pension Fund, the Audit Committee).

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<b>Financial Statements</b>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none"><li>• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and</li><li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li></ul>	<p>We commenced our post-statements onsite visit in early June and as at 22 July 2019 our audit is substantially complete. Our findings are summarised on pages 4 to 9.</p> <p>Following the receipt of the draft accounts the Pension Fund sought from its actuary an assessment of the impact of the McCloud legal ruling. This identified a £30.3 million increase in the actuarial present value of promised retirement benefits that has now been updated in the final version of the financial statements.</p> <p>No other material errors or uncertainties were identified during the course of the audit and we have only recommended a small number of further adjustments to improve the presentation of the financial statements.</p> <p>The draft financial statements were presented for audit in accordance with the agreed timetable of the end of May 2019. The accounts were supported by good quality working papers and we received prompt responses to our queries.</p> <p>Audit adjustments are detailed in Appendix C. We have also raised a recommendation for management in respect of journals as set out in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>We anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2019.</p>
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## Acknowledgements

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.

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

## Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Since issuing our Audit Plan in January 2019 we have updated our materiality calculation to reflect the increase in your total net assets as at 31 March 2019. This has resulted in the materiality calculation reported to at planning of £20.1 million increasing to £21.8 million

In addition, we have identified a further significant risk in relation to the Actuarial Present Value of Promised Retirement Benefits – Actuary data as the Pension fund has chosen to opt for option A in its presentation of the financial statements. This is reflected in the reporting of our findings against the significant risks within this report.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Committee meeting on 30 July 2019, as detailed in Appendix E.

These outstanding queries include:

- Finalisation of member data testing
- Review of adjustments as a result of the McCloud court judgement
- Receipt of management representation letter
- Review of the final set of financial statements
- Obtaining and reviewing the annual report
- Completion of our subsequent events review

## Our approach to 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.

Our assessment of the value of materiality has been adjusted to reflect the increase in the value of net assets. We detail in the table below our determination of materiality for Somerset Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	21,800,000	• This equates to 1% of total net assets for the 2018/19 financial year
Performance materiality	16,350,000	• This equates to 75% of materiality
Trivial matters	1,090,000	• 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.

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>1 Revenue transactions include fraudulent transactions</b></p> <p>Under ISA 240 (UK) there is a 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><b>Auditor commentary</b></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 Somerset as the Administering Authority of Somerset Pension Fund, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p><b>2 Management override 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.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>We addressed the significant risk of management override of controls by:</p> <ul style="list-style-type: none"> <li>• evaluating the design effectiveness of management controls over journals</li> <li>• Analysing the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• testing high risk journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gaining an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence</li> <li>• evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions</li> </ul> <p>Our audit work has not identified any issues in respect of management override of controls.</p>

# Significant findings – audit risks



Risks identified in our Audit Plan	Commentary
<p><b>3</b> <b>The valuation of Level 3 investments is incorrect</b></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>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<p><b>Auditor commentary</b></p> <p>In order to address the significant risk of valuation of level 3 investments being incorrect we performed the following;</p> <ul style="list-style-type: none"> <li>• gained an understanding of the Fund’s process for valuing level 3 investments and evaluate the design of the associated controls;</li> <li>• reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments;</li> <li>• considered the competence, expertise and objectivity of any management experts used;</li> <li>• reviewed the qualifications of the expert to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached; and</li> <li>• for a sample of investments, tested 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. Reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period.</li> </ul> <p>Our audit work has not identified any issues in respect of the valuation of these investments.</p>
<p><b>4</b> <b>Actuarial Present Value of Promised Retirement Benefits Actuary Data</b></p> <p>IAS26 requires whole fund valuations to be undertaken to give the present value of pension liabilities. This requires an actuarial valuation which by their nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>The Pension Fund have opted for option A which requires the present value of net liabilities to be disclosed within the Net Asset statement.</p> <p>We identified the actuarial present value of Promised Retirement Benefits Actuary Data as a significant risk</p>	<p><b>Auditor Commentary</b></p> <p>In order to address the significant risk of the Actuarial Present Value of Promised Retirement Benefits we performed the following:</p> <ul style="list-style-type: none"> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary’s work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Authority’s pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability;</li> <li>• tested the consistency of the liability disclosed in the core financial statements with the actuarial report from the actuary;</li> <li>• undertaken 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; and</li> </ul> <p>As set out in more detail on page 7 the present value of pension liabilities has been updated to reflect an increase in the liability of £30.295m in relation to the McCloud judgement.</p> <p>Our audit work noted that the Pension Fund has considered that the impact of GMP equalisation is not material to the Statement of Accounts. Based on our review of this area we concur with this view.</p> <p>Our audit work has not identified any issues in respect of the Value of Promised Retirement Benefits.</p>

# Other issues and matters discussed with management





This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	
<p>1 <b>Going concern</b></p>	<p>Management set out their consideration of the appropriateness of the adoption of going concern assumption in their response to our ISA240 letter in April 2019. In this report the S151 officer confirmed their view that the Pension Fund is a going concern and subsequently confirmed to us that there are no material uncertainties to this view that would require disclosure.</p> <p>Officers have a reasonable expectation that the Fund will continue for the foreseeable future. For this reason, the Fund continue to adopt the going concern basis in preparing the financial statements.</p>	<p>The disclosures in the accounts are considered appropriate.</p> <p>We have reviewed the Pension Funds funding valuation which covers a period of three years and given the long term nature of the pension scheme there is little risk of material uncertainty in respect of going concern assumption</p> <p>Management set out their consideration of the appropriateness of the adoption of going concern assumption in their response to our ISA240 letter in the report to the Audit and Governance Committee in April 2019.</p> <p>In this report management confirm their view that the Pension Fund is a going concern.</p> <p>We concur with this view.</p>
<p>2 <b>McCloud ruling regarding age discrimination</b></p>	<p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>This issue has been an emerging issue following receipt of the draft financial statements and it is one that by its nature is sector wide. We have been working with management to determine the most effective way to deal with this issue, recognising that pension estimates are high value, complex and important figures within the financial statements. As a result they require an appropriate degree of focus and challenge from both management and auditors alike.</p> <p>We have asked management to work with their actuary to gain the necessary information to determine whether the potential impact of this judgement would have a material impact to the statement of accounts. For the pension fund, this will be via an amendment to the disclosure note on the 'Actuarial Present Value of Promised Retirement Benefits for the Purpose of IAS 26'.</p> <p>The fund have amended the Net Asset Statement to reflect an increase in the liability of £30.295m in relation to the McCloud judgement.</p> <p>We have yet to review the methodology applied by the pension fund to obtain this estimate from the actuary, but hope to complete this work over the next few days and will update the Audit Committee at the meeting on the 30 July 2019.</p>

# Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
<b>Level 3 investments</b>	The Pension Fund has level 3 investments that in total are valued on the balance sheet as at 31 March 2019 at £49.993 million. The total of this balance is made up of private equity funds. The level 3 investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. The basis of valuation for each category of level 3 investments is set out in note 30 to the financial statements. The overall value of level 3 investments has increased by £7.889 million in 2018/19.	<ul style="list-style-type: none"> <li>From our review of the level 3 investments, no issues were identified in regard to the valuation basis of these</li> <li>Overall we consider managements process and key assumptions to be reasonable</li> </ul>	 <b>Green</b>
<b>Level 2 investment</b>	The Pension Fund have investments in pooled investments and property funds that in total are valued on the balance sheet as at 31 March 2019 at £1,142.99 million. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. The basis of valuation for each category of level 2 investments is set out in note 30 to the financial statements. The value of the investment has increased by £944.800 million in 2018/19.	<ul style="list-style-type: none"> <li>From our review of the level 2 investments, no issues were identified in regard to the valuation basis of these</li> <li>Overall we consider managements process and key assumptions to be reasonable</li> </ul>	 <b>Green</b>

## Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable



# Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① <b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures</li> </ul>
② <b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>We are not aware of any related parties or related party transactions which have not been disclosed.</li> </ul>
③ <b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</li> </ul>
④ <b>Written representations</b>	<ul style="list-style-type: none"> <li>A letter of representation has been requested from the Pension Fund, which is included in the Audit Committee papers</li> </ul>
⑤ <b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>We requested from management permission to send confirmation requests to custodians and Fund Managers. This permission was granted and the requests were sent all of these requests were returned with positive confirmation.</li> </ul>
⑥ <b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements. A small number of disclosure amendments were made to the financial statements which are set out in Appendix B.</li> </ul>
⑦ <b>Audit evidence and explanations/significant difficulties</b>	<ul style="list-style-type: none"> <li>All information and explanations requested from management was provided</li> <li>We were provided with good working papers and support from the Pension Fund finance team throughout the audit process</li> </ul>
⑧ <b>Matters on which we report by exception</b>	<ul style="list-style-type: none"> <li>We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2019 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</li> </ul>

# 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 Standard and confirm that we, as a firm, and each covered person, 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 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

## Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Pension Fund and the following non-audit service was identified. We set out the threat to our independence and safeguard that has been applied to mitigate this threat. 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 undertake this work.

Audit Related	Expected Fee	Threats Identified	Safeguards
Pension Assurance Letters	7,000	Self review  Management	This is not considered a significant threat as we are not reviewing any information that we have prepared. As this is an audit related service, it is acceptable for the audit team to carry out this work. In addition, we have not prepared the financial information on which our assurances will be used by the requesting auditor to form an opinion on as part of their opinion on the financial statements of the admitted body.  The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. We will not be making any recommendations as part of this work.
<b>Non Audit Related</b>			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	We do not consider that the Audit of BPP is a threat to our independence as Somerset Pension cannot exercise control over BPP.  The audit of BPP is carried out by a specialist team, authorised by the Financial Standards Authority.  The Fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.

Grant Thornton UK LLP are the auditors of Brunel Pension Partnership Limited (BPP). This fee isn't included in the financial statements of Somerset Pension Fund and is payable by BPP.

# Action plan

We have identified a recommendation for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendation with management and we will report on progress on this recommendation during the course of the 2019/20 audit. The matter reported here is limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
●	<p>The current journal policy does not require a second person to authorise journals before they are posted to the general ledger. There is a risk of self authorisation that could lead to fraudulent journals being posted</p>	<p>To reduce the risk of material error from journal adjustments made in the general ledger, we recommend that Somerset Pension Fund includes, in its journal policy, the requirement that all journals should be authorised by a second person</p> <p><b>Management response</b> Somerset CC (SCC) finance officers do not share the view of the external auditors on the need to have journals authorised by a second person:-</p> <p>From a fraud perspective, there are controls already in place in the AP and AR systems, including segregation of duties around key tasks. This is where the real risks lie. Journals do not actually involve expenditure or income, so the inherent risk to SCC is absolutely minimal. Regular internal audit work on our AP and AR systems have not demonstrated any risks that would need an additional authorisation to journals in the general ledger. This work provides on-going evidence of the strength of controls in those systems fundamental to the Council's internal control framework. Each user of SAP has an individual ID that is registered against each transaction that the user makes. Any unusual suspicious journals are going to be traceable to a single member of staff.</p> <p>There are restrictions around the number of SAP users who can actually carry our journals – it is not as if this is standard functionality available to all users, but is restricted to key finance staff only. (These are very rarely AR and AP users).</p> <p>Key journals have other controls – in particular accruals over £25k do actually need to be signed off by a Strategic Manager before being processed.</p> <p>SCC's budget monitoring acts as another control in order to pick up rogue journals. Budget management / service budget holders would be surprised to see any transactions on their codes that they did not recognise and would investigate.</p> <p>No examples have been offered by either Grant Thornton or SWAP of journals where this has occurred – either fraudulently or by error. SCC has provided a full journal list to Grant Thornton for SCC . SCC has to consider the costs of control, which are potentially high. These may include – (i) the possible need to reconfigure SAP and to pay to do so, requiring journals to be authorised; (ii) the costs of maintaining GL authorisation lists in addition to AP / AR authorisation lists; and (iii) the costs of having additional finance staff involved in the process, both in terms of adding staff and in terms of slowing down bona fide accounting transactions</p>

#### Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

# Follow up of prior year recommendations

We identified the following issue in the audit of Somerset Pension Fund's 2017/18 financial statements, which resulted in the following recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendation and note that it is still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	X	The current journal policy does not require a second person to authorise journals before they are posted to the general ledger. There is a risk of self authorisation that could lead to fraudulent journals being posted	<ul style="list-style-type: none"> <li>As in prior years finance officers believe there are sufficient controls in place to mitigate the risk and have therefore declined to amend the process. Further detail on the risk and recommendation, along with management's response is set out on page 11</li> </ul>

#### Assessment

- ✓ Action completed
- X Not yet addressed

# Audit Adjustments

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

## Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
1 As noted within our main report, the liability for the Pension Fund was updated to include the impact of the McCloud/Sargeant judgement. This has resulted in an increase of £30.125m to the actuarial present value of promised retirement benefits which has been calculated by the Pension Fund's Actuary. There was a corresponding increase in the charges reflected through the Fund Account		30,125	30,125
2 Change in Pension fund account for the reasons outlined above	30,125		
<b>Overall impact</b>	<b>£30,125</b>	<b>£30,125</b>	<b>£30,125</b>

## 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>McCloud review</b>	Notes 14 and 27 require updating as a result of the McCloud / Sargeant ruling to reflect the change in liability	The pension fund should ensure that all relevant disclosure notes have been updated to reflect the requirements of the McCloud judgement	✓
<b>General Disclosures</b>	Other general amendments	A number of minor amendments have been made to the accounts to correct typographical errors and incorrect note references	✓

# Audit Adjustments

## **Impact of unadjusted misstatements**

There are no unadjusted misstatements

## **Impact of prior year unadjusted misstatements**

There are no prior year unadjusted misstatements.

# 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.

## 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.

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>



# Draft Audit opinion

## Independent auditor's report to the members of Somerset County Council on the pension fund financial statements of Somerset Pension Fund Opinion

We have audited the financial statements of Somerset Pension Fund (the 'pension fund') administered by Somerset County Council (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements. 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 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities,
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Chief Financial Officer has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

### Other information

The Chief Financial Officer is responsible for the other information. The other information comprises the information included in the Annual Financial Report and Statement of Accounts 2018/19 and the Annual Report, other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# Draft Audit opinion

## Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Annual Financial Report and Statement of Accounts, and the Annual Report for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Chief Financial Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on [page\(s\) x to x](#)], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund's 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 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial.

Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at:

[www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's 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.

[Signature]

Peter Barber, Director  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
Bristol

Date:



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