

Audit Committee

Thursday 22 September 2022

10.00 am Luttrell Room - County Hall,
Taunton



To: The Members of the Audit Committee

Cllr D Ruddle (Chair), Cllr A Sully (Vice-Chair), Cllr Cllr L Baker, Cllr S Carswell, Cllr M Caswell, Cllr N Cavill, Cllr M Chilcott, Cllr P Clayton, Cllr H Davies, Cllr H Farbahi, Cllr T Kerley, Cllr M Lewis and Cllr J Snell

All Somerset County Council Members are invited to attend meetings of the Cabinet and Scrutiny Committees.

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk and Monitoring Officer - 14 September 2022

For further information about the meeting, please contact Pam Pursley at ppursley@somerset.gov.uk or 01823 357628 or Stephanie Gold at stephanie.gold@somerset.gov.uk or 01823 357628

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Regulation 4 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers



RNID typetalk

AGENDA

Item Audit Committee - 10.00 am Thursday 22 September 2022

*** Public Guidance notes contained in agenda annexe ***

1 **Apologies for absence**

2 **Declarations of Interest**

Details of all Members' interests in District, Town and Parish Councils can be viewed on the Council Website at [County Councillors membership of Town, City, Parish or District Councils](#) and this will be displayed in the meeting room (Where relevant).

The Statutory Register of Member's Interests can be inspected via request to the Democratic Service Team.

3 **Minutes from the previous meeting** (Pages 9 - 16)

The Committee is asked to confirm the minutes are accurate.

4 **Public Question Time**

The Chairman will allow members of the public to present a petition on any matter within the Committee's remit. Questions or statements about any matter on the agenda for this meeting will be taken at the time when each matter is considered.

5 **Committee Future Workplan** (Pages 17 - 18)

To consider the future work plan

6 **External Audit Progress Update** (Pages 19 - 30)

To consider this report

7 **External Audit Findings for Somerset Pension Fund** (Pages 31 - 58)

To consider this report

8 **Internal Audit update** (Pages 59 - 78)

To consider this report

9 **LGR Risk Management update** (Pages 79 - 92)

Item Audit Committee - 10.00 am Thursday 22 September 2022

To note the risks of the LGR programme register

10 **Any other urgent items of business**

The Chairman may raise any items of urgent business.

This page is intentionally left blank

Guidance notes for the meeting

1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting via Telephone (01823) 359045 or 357628; or Email: democraticservices@somerset.gov.uk

They can also be found here: www.somerset.gov.uk/agendasandpapers

2. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at:

<http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/>

3. Minutes of the Meeting

Details of the issues discussed and recommendations made at the meeting will be set out in the Minutes, which the Committee will be asked to approve as a correct record at its next meeting.

4. Public Question Time

If you wish to speak, please tell, the Committee's Administrator, by 5.00pm on the Friday before the meeting. This is the deadline to register to speak and requests to speak received after this time will be at the Chair of the Committee's discretion.

At the Chair of the Committee's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit.

The length of public question time will be no more than 30 minutes in total.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chair. You may not take direct part in the debate. The Chair will decide when public participation is to finish.

If there are many people present at the meeting for one item, the Chair may adjourn the meeting to allow views to be expressed more freely. If an item on the Agenda is

contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, normally to two minutes only.

5. Exclusion of Press & Public

If when considering an item on the Agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.

6. Committee Rooms & Council Chamber and hearing aid users

To assist hearing aid users Committee meeting rooms have infra-red audio transmission systems. To use this facility, you will need a hearing aid set to the T position.

7. Recording of meetings

The Council supports the principles of openness and transparency. It allows filming, recording and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone wishing to film part or all of the proceedings.

No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chair can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council's Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

8. Operating Principles for Audit Committee

Reports

- i. The reports should be clearly and concisely written. The report template available to officers on the intranet will be used.
- ii. Reports should highlight issues for Member consideration, no matter how difficult or complex, for example:
 - All reports should detail current performance levels.
 - All reports should identify cost implications.
- iii. No report should contain a recommendation "to note" the report.
- iv. Any report, which outlines clear priorities for improvement, should contain recommendations and a detailed action plan with timescales and resources.

Members

- i. Members should be clear about cost and resourcing issues highlighted in clearly and concisely written reports.
- ii. Members should seek to understand the impact of reports on Council performance.
- iii. Members can refer reports / issues back to the Cabinet where there are constructive concerns about services and/or performance.

9. The Role of the Audit Committee

- (a) Approves (but not directs) internal audit's strategy, plan and performance;
- (b) Reviews summary internal audit reports and the main issues arising, and seeks assurance that action has been taken where necessary;
- (c) Considers the reports of external audit and inspection agencies;
- (d) Ensures that the Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- (e) Ensures that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process and effective financial governance is actively promoted;

(f) Reviews the financial statements, external auditor's opinion and reports to Members, and monitors management action in response to the issues raised by external audit;

(g) Approves the annual accounts of the Council and the Annual Governance Statement, together with considering the Matters Arising from the Accounts Audit.

AUDIT COMMITTEE

Minutes of a Meeting of the Audit Committee held in the Luttrell Room, County Hall, Taunton on Tuesday 28th July 2022 at 10.30 am

Committee members present: Cllr Dean Ruddle (Chair), Cllr Andy Sully (Vice-Chair), Cllr Lee Baker, Cllr Mike Caswell, Cllr Norman Cavill, Cllr Mandy Chilcott, Cllr Steve Ashton (sub), Cllr Hugh Davies, Cllr Tim Kerley, Cllr Mike Lewis, Cllr Simon Coles (sub).

Committee members attending remotely: Cllr Simon Carswell, Jennifer Whitten (Independent member)

Other members attending remotely: Cllr Andy Dingwell, Cllr Leigh Redman, Cllr Liz Leyshon, Cllr Martin Lovell, Cllr Mike Stanton, Cllr Tessa munt,

Officers attending:

Jason Vaughan - Director of Finance and Governance Finance/S151 officer

Scott Wooldridge – Head of Governance and Democratic Services / Monitoring Officer

Angela Farmer – Equalities and Risk Manager Sedgemoor DC

Jonathan Hallows – Democratic services officer

Stephanie Gold - Senior Democratic Services Officer

Pam Pursley - Risk Manager

External officers attending:

David Hill – Chief Executive, Southwest Audit Partnership

Barrie Morris – Director and Engagement Lead Public Sector, Grant Thornton

Julie Misco – Engagement Officer, Grant Thornton

Item 1. Apologies for absence

Cllr Peter Clayton (Substituted by Cllr Steve Ashton) Cllr Jeny Snell, Cllr Habib Farbahi (substituted by Cllr Simon Coles)

Item 2. Declarations of Interest

There were no declarations of interest from members.

Item 3. Minutes from the last meeting (Pages 9 – 10)

he minutes of the previous meeting were approved as a correct record.

Item 4. Public Question Time

The Chairman informed the committee that there was a member of the public who wanted to ask some questions but did not submit those in time for committee. He advised that he had sent a full written response to those questions prior to the meeting.

(Please note the Chairman suggested and the committee agreed to take agenda item 6 before agenda item 5)

Item 6. Internal Audit Update (Pages 37 - 54)

David Hill, CEO of Southwest Audit Partnership presented the Report of Internal Audit Activity 21/22. He began by informing members that there are some similarities in Items 5 and 6 but these reports would not usually be presented in the same month. Due to a delay it is necessary for both items to be presented to the committee together.

He highlighted some key points from the report including:

- Page 38 shows an overview of the audit plan and summary of opinions given, 2 reasonable assurance opinion, 3 limited assurance opinions and 3 follow up audits
- Page 41 shows the action tracker of recommendations and management actions. There are 53 overdue actions and 8 of those are priority 1. He added that since the tracker has been in place there has been a better response on management actions with service managers.
- Page 43 to 45 is a summary of limited assurance reviews
- Page 46 shows the healthy organisation review. This review is about identifying key themes for the organisation to demonstrate a healthy organisation. He added that this is reviewed every 2 years.
- 47 to 49 shows more details of the 3 follow up audits.

At the end of the introduction members were invited to ask questions and the following questions were raised.

- Cllr Chilcott agreed that there were many duplications in the two reports and commented that some members may have found this frustrating.
- Page 44 - Cllr Chilcott asked about education safeguarding complaints. The actions are due by Sept 22 so would this be carried forward into future reports. The officer confirmed that this would be the case.
- Page 45 – Cllr Chilcott asked about transport budgets and the overspend on the budget. The Cllr felt that it is not acceptable that these actions are not due to be implemented until September 23. David Hill informed members that the timeframes in this report are a joint agreement between the auditors and the service managers and are based on what is reasonable. Jason Vaughan added that the transport actions had been identified as a result of the recent MTFP financial situation (budget gap). He suggested that he would review these actions and make sure that any actions that could be brought forward will be.
- Cllr Davies asked about DBS checks for members and when this would happen because he felt this was very important for the councillor role. In response Cllr Liz Leyshon, who was in attendance virtually) informed members that there is now a budget working group, and also that Cllr Tessa munt is exploring the situation with DBS, and the levels of checks required for members. Cllr Tessa Munt (who was in attendance virtually) reassured members that she was indeed looking at DBS and e-DBS checks for Cllrs. She confirmed that 43 Cllrs have e-DBS (enhanced DBS) because of their connections with children's and vulnerable adults' services.

Cllr Chilcott added that online DBS checks for all councillors would be very welcomed. Cllr Munt added that all Cllrs should have basic DBS, and asked if it might be a good idea for all councillors to bring their original documentation to the next meeting of full council to avoid having to make a special trip into County Hall with the required documentation

- Cllr Lewis queried follow-up audits and in particular Page 49 Appendix c - the Childrens' Education Health and Care Plans. The report states the intention to cease monitoring of implementation of these actions when they are still 3 in progress. He asked if the committee were comfortable that these actions are no longer monitored. In response David Hill advised that in this case, Priority 1 had been completed and Priority 2 was well underway. The lower-level priorities would now be up to the individual service managers to monitor. However, he asked if members would like an oversight of this monitoring as this could be done.
- As a follow up to this Cllr Chilcott enquired as to how much work this monitoring would entail. The officer reassured the councillors that it would involve chasing service areas and obtaining evidence to confirm this has been done. Cllr Chilcott agreed that it would be wise for the internal audit to focus on the higher risk priorities.

The committee accepted the report.

Item 5. Annual Audit Opinion from SWAP (Pages 15 - 36)

David Hill from SWAP presented the report. He began by explaining that this report is about how well governance and risk operates within the authority. He added that it is a balanced view of how management controls have been operating in the year 21/22. He informed members that this is based on 4 opinion categories. He assured members that there had been no critical risks identified though the work.

The officer highlighted several key points including.

- Page 19-21 more detailed narrative around the opinion, and context
- Page 22 – audit committee to assure full council that risk is being managed effectively – swap happy with strategic risks
- Page 29 – external assessment key measure to ensure internal audit are compliant with public sector audit standards
- 30-36 – all audit for 21/22 and breakdown of recommendations made. It is this work that has informed out opinion.

After the introduction. the officer asked members of the audit committee for any questions or comments, and the following were raised.

- Cllr Coles asked about the internal audits deferred to 22/23. He asked if we can we be more specific on timeframes? What order, when is it each audit starting? The officer advised that risk management has changed dramatically over the past 3 years, and it is proving more difficult to plan. Future audits will be done based on assessment of need. He added that There is an annual plan that shows a more detailed breakdown
- Page 22 - Cllr Sully asked about the SEND costly packages and cross partner working. He asked what SCC are looking at doing in terms of children with extra needs. He added that he felt this was a high risk due to costs increasing for partners as well the council itself. The officer advised that cross partner working is all about supporting our partners through difficult times and learning how to manage these issues as a partnership.

- Cllr Kerley asked if it is normal to have this many deferred items on an agenda? (Referring to plan performance) The officer confirmed that this was to be expected.
- Page 31 - Cllr Cavill asked about new Berkley school. He asked what further dialogue the audit committee will get on this as it seems a very complicated issue. The officer confirmed that this was about segregation of duties and a follow up will come back to the committee.
- Page 20 - Cllr Lewis asked about the summary of audit work. He asked if it was concerning that there are 19 opinions, and 11 of those with limited assurance. The officer advised that this is about working with management to focus on high-risk areas. This is not surprising as it demonstrates using internal audit in the correct way by identifying issues. This is a measure of management response.
- Cllr Chilcott asked about major to medium risks and felt that more dialogue on the major risks would be useful. The officer advised members that there would soon be a new audit management dashboard system which allows the reader to drill down into opinions in more detail.
- Cllr Chilcott questioned the 53 overdue actions remaining and observed that the same number had been reported in March. The Cllr asked if it was the case that there had been no movement in those actions. In response the officer explained that there had been many difficulties in the period, largely due to LGR and its impact on resourcing, and this had meant a delay on some actions. He also advised that due to LGR some actions may not be a priority anymore. Cllr Chilcott suggested that any non-essential or non-relevant actions should be removed as it is not fair that staff have 53 outstanding actions that may or may not be relevant anymore.
- Cllr Baker thanked the officer and suggested that the key here is to challenge these actions. Are we confident that we are delving into these outstanding actions and trying to resolve?
- Cllr Coles asked the officer if they would you be able to do a review of the 53 outstanding actions prior to next audit meeting? The officer confirmed this could be done.
- Page 25 - Cllr Sully asked about postponing activities and the integrate 8 system. He asked what this system is used for. The officer advised that the software relates to the commissioning model and that this work will be picked up by new authority.

The committee accepted the report

Item 7. External Audit Update (Pages 55 - 78)

Barrie Evans from Grant Thornton presented the report and highlighted the following key points.

- Page 58 is an Introduction to audits and the four significant risks –
 1. Revenue transactions
 2. Management override of controls
 3. Valuation of land and buildings
 4. Valuation of net pension fund liability
- Materiality - 13.5 mil materiality with a 1.5% gross expenditure. This means that there is a good control environment in place at the council.
- Page 60 provides more detail of work in relation to significant risks.

- Page 62 details other risks such as infrastructure assets which is a national issue. Many local authorities with material infrastructure have not been properly following audit practice and the code for accounting in relation to recording assets.
- Page 71 is about the audit team and page 72 to 73 details the audit fees.
- Page 74 shows the certification of the Teachers' Pension Scheme.

Questions

- Cllr Kerley asked about property valuations and the national issue. He asked how SCC compares to other authorities who may be experiencing this issue as well? The officer advised that the issue was widespread and largely due to the increase in demand for valuation of land and buildings.
- Cllr Davies asked about Infrastructure assets and specifically historical buildings. He asked if these were being undervalued because they need repairs. The officer explained that valuations would consider the 'as new' value of the property, and then factor in depreciation and how much work must be undertaken, to reach the net book value.
- Page 70 - Cllr Sully asked about transactions to new authority. He asked why this is not looking at '22/'23 budgets? The officer advised that auditors usually look in the past and have reviewed financial statements up to 31st March '22. He added that they also have regard to lessons learned and build this into the '22/'23 budget audit.
- Page 57 - Cllr Chilcott asked about climate change and asked if there are currently any financial assumptions or costs in place to meet this goal.
- Page 58 - Cllr Chilcott asked about value for money arrangements and specifically the weaknesses identified. When would this review be coming back to committee?
- Page 96 – Cllr Chilcott queried audit fees and the extra £10000 added to cost and questioned how remote working has caused an extra £10000 worth of audit work. What ways of working are causing the increase in fees?
- Page 61 - Cllr Baker asked about valuation of land and buildings. He asked for more details on the tender process for valuers? He asked for reassurance that there are no conflicts of interest here. The officer advised that Grant Thornton use three valuation firms, all of which are experienced in the public sector and suitably qualified, with no pre-existing or current relationships with the council.
- Page 53 – Cllr Lewis asked about cash handling and its deferral. He was concerned that this was a significant risk in the past. THIS QUESTION REFERS TO INTERNAL AUDIT ITEM 6.

Item 8. External Audit Plan for the Council and Pension Fund (Pages 79 - 124)

Julie Masci, Engagement Lead from Grant Thornton presented the report. She advised members that the Pension fund plan follows the same structure as the main council audit.

The following key points were highlighted to members.

- Page 108 identifies significant risks for pension fund audit. This is about management override of controls.
- There are two other significant risks for pension funds which are about the need to use estimates and judgements in determining values.

- Valuation of investments are on a 3-point scale. 1 being easier, 3 being hardest to value. These valuations may include judgements or estimations.
- Materiality considerations and net assets. 1% net assets position. 26.19 million.
- At the back of the plan members will find the proposed fees which have been itemised.

Questions:

- Page 109 - Cllr Kerley asked about the reasons for rebuttal and in particular No.3 point on culture. He felt that this needed some further explanation.
- Cllr Chilcott queried fees and noted that additional fees that are being added every year. She acknowledged the extra work that is required but asked if these fee structures had been agreed nationally by industry regulator. She asked if there might be a national renegotiation of annual fees to set more realistic fees. The officer advised that the audit fee scale was set 5 years ago and is longer sufficient. Auditing fees are approved by PSAA, and any increases to fees are monitored, challenged, and justified. Some added that often invoices are late due to this process. She advised that the PSAA are currently going through retendering and look to set new fees for year '23/24. She reassured members that in future fee variations should be much less.

Item 9. Risk Management Update (Pages 125 - 176)

Pam Pursley introduced herself as Risk manager, a role she was returning to after a period working in democratic services. She explained that the document was essentially a risk management pathway which includes strategy, policy, and process documentation. The report outlines how Somerset County Council manages its own risk and it is available for all to read. She then made the following key points.

- There are several levels of risk across three categories, Operational (individual services), Project risks and Programme risks
- Appendix d has been generated from JCAD which is the software used by SCC to manage risk.
- She concluded the introduction by asking members of the committee if they are happy that this update is given quarterly, or would they prefer to see it at every meeting? Members agreed that it would be good to see the report at every other meeting of the audit committee.

The Risk Manager thanked members for their time and asked for any questions or comments on the update.

- Page 166 to 167 - Cllr Kerley asked for clarity on colour coding of risks and how this work with the scoring? The officer advised that the key information to look at would be the 5/5 scoring mechanism.
- Cllr Sully (vice chair) enquired about risk training for members. The officer advised that there are two risk training sessions scheduled for September and October and that she would be happy to work with officers and members on a 121 basis if required.
- Page 137 appendix b - Cllr Chilcott questioned why is this no longer used in council papers if it is part of the risk pathway?
- Page 170 - Cllr Chilcott questioned the sustainable MTFP scoring. This has a score of 25 but a controlled risk assessment is 12 and suggested that 12 is far too low given the current

MTFP situation. The officer advised that 25 is the current score (so very high to reflect the current situation) and 12 is the target score.

- Cllr Chilcott asked about the cost-of-living crisis and suggested that this should have a score of 25. The Risk Manager advised that this is factored into risk 57 as above, but it could now be a risk on its own. She would investigate that.
- Cllr Baker asked how often the risk pathway is reviewed. The risk manager advised that the risk pathway is reviewed every 2 years and added that a complete review would be due next year, and this is good timing given the changes that will come with local government reorganisation.

The committee accepted the report

Item 10. Draft Annual Governance Statement (AGS) (Pages 177 - 208)

Scott Wooldridge Head of Governance and Democratic Services presented the report and highlighted the following key points to the audit committee:

- It is the committee's role to review and comment on the Annual Governance Statement
- The Annual Governance Statement is a statutory requirement.
- Page 178 Para 3.3 refers to an exceptional year. Somerset has seen many additional challenges and opportunities due to Local Government Reorganisation.
- Page 179 - the healthy organisation. This is a critical tool.
- Para 3.6 – refers to the view looking forward at a critical point of transition for SCC
- This is about delivering on key responsibilities as well as organisational change.

Questions

- Cllr Chilcott wanted all members to acknowledge what a challenging year it has been and felt that staff should be commended.
- Cllr Ruddle (chair) agreed that this was a great report
- Cllr Andy asked if there an annual business plan? The officer confirmed that the new administration will have picked this work up.
- Cllr Davies asked about changes to NHS governance. Is this part of the AGS? The officer confirmed that CCG no longer exists, and it is now called the Integrated Care System.
- Cllr Carswell asked if members needed to formally approve the Annual Governance Statement. The officer confirmed that it is for comment and noting only.

The committee accepted the report

Item 11. Committee Future Work Programme (Pages 209 - 210)

Members were asked to consider the future work programme.

Jason Vaughan (Head of finance and S151 officer) talked though work programme and asked members for any questions or comments.

- Cllr Chilcott asked if the additional risk papers that had been requested under agenda item 9 would be coming to the next meeting of the audit committee.

Item 12. Any other urgent items of business

No other urgent business was raised by the Chairman.

Meeting closed 12.20pm

Audit Committee Work Programme 2022 – March 2023

22 September 2022	Description	Report by
External Audit Update Grant Thornton	An update on the progress of the audit as it moves towards a conclusion following the approval of the accounts in July	
External Audit Somerset Pension Fund	A report of the findings for the Somerset Pension Fund year ending March '22.	
LGR programme risks	To review the LGR programme risks	
Internal Audit update	A progress report on the SWAP internal audit activity Sept 2022	
Committee Future work Programme	Consideration of the work programme for the Audit Committee	
24 November 2022		
Statement of Accounts	To approve both the County Council's and Pension Fund's accounts, final Annual Governance Statement and Value for Money arrangements	
External Audit report from Grant Thornton	Audit Findings Report and Auditors Annual Report	
Internal Audit update from SWAP	The regular progress report from SWAP on the completion of the current Internal Audit Plan, highlighting any high risks that have arisen from their work	
Committee Future work Programme	Consideration of the work programme for the Audit Committee	
LGR programme risks	To review the LGR programme risks	
19 January 2023		
Annual Report to Council	To approve the Committee's Annual report to Full Council	
Internal Audit update from SWAP	Progress report from SWAP on the status of the current Internal Audit Plan, noting any high risks identified	
Medium Term Financial Plan Reports	Treasury Management Strategy, Capital Strategy and MRP statement	
Anti-Fraud and Corruption Policy	The Anti-Fraud and Corruption Policy for Somerset Council	
Committee Future work Programme	Consideration of the work programme for the Audit Committee	
LGR programme risks	To review the LGR programme risks	
23 March 2023		
Risk Management	The regular update on progress in mitigating the highest scoring risks	
LGR programme risks	To review the LGR programme risks	
Committee Future	Consideration of the work programme for the Audit	

work Programme	Committee	

Somerset County Council Audit Progress Report and Sector Update

Year ending 31 March 2022

Page 19

31 August 2022



Agenda item 6

Contents

Section	Page
Introduction	3
Progress at August 2022	4
Audit Deliverables	6
Sector Update	7

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 Authority 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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

Introduction

Your key Grant Thornton team members are:

Barrie Morris

Director

T 0117 305 7708

E barrie.morris@uk.gt.com

Grace Hawkins

Senior Manager

T 029 2034 7542

E grace.e.Hawkins@uk.gt.com

Oscar Edwards

Assistant Manager

T 0117 305 7705

E oscar.r.edwards@uk.gt.com

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- includes a number of challenge questions in respect of these emerging issues which the Committee may wish to consider (these are a tool to use, if helpful, rather than formal questions requiring responses for audit purposes)

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications <https://www.grantthornton.co.uk/en/services/public-sector-services/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

Progress at August 2022

Financial Statements Audit

In June we issued a detailed audit plan, setting out our proposed approach to the audit of the Authority's 2021/22 financial statements. This was presented at the July 2022 Audit Committee meeting.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing drafted accounts to 31 July 2022 and audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This is enacted by The Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. The deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28. We received the draft financial statements in advance of this deadline on the 29 July 2022.

Our financial statements audit commenced in early August 2022 and is progressing well and is scheduled until October 2022. We formally meet with the finance team on a weekly basis to update on progress and escalate outstanding matters, with no significant issues or delays identified to date.

We will report our work in the Audit Findings Report at the November 2022 Audit Committee and aim to give our opinion on the Statement of Accounts by 30 November 2022.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code was the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements. We anticipate issuing our Auditor's Annual Report in November 2022.

Progress at August 2022 (cont.)

Other areas

Certification of claims and returns

We certify the Authority's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for 2021/22 has a deadline of 30 November 2022. The work was completed and submitted in August 2022.

Meetings

We meet with Finance Officers regularly and have kept them up to date with audit progress. We last met in early September as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in March to discuss the Authority's strategic priorities and plans.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, 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 additional and more robust testing.

Our work in the Local Government sector in the period 2018/19 to 2021/22 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited and have communicated fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit Deliverables

2021/22 Deliverables

Audit Plan

We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Authority's 2021/22 financial statements and to report on the Authority's value for money arrangements in the Auditor's Annual Report

Planned Date

July 2022

Status

Completed July 2022

Audit Findings Report

The Audit Findings Report will be reported to the November Audit Committee.

November 2022

Not yet due

Auditors Report

This includes the opinion on your financial statements.

November 2022

Not yet due

Auditor's Annual Report

This report communicates the key outputs of the audit, including our commentary on the Authority's value for money arrangements.

December 2022

Not yet due

2021/22 Audit-related Deliverables

Teachers Pensions Scheme – certification

This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform.

Planned Date

November 2022

Status

Completed August 2022

Sector Update

Page 25

Authorities continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

A teal rectangular button with the text "Public Sector" in white, centered.

Public Sector

A purple rectangular button with the text "Local government" in white, centered.

Local
government

Response to local audit consultation – Department for Levelling Up, Housing and Communities (“DLUHC”)

The Department for Levelling Up, Housing and Communities (“DLUHC”) has published its response to the local audit consultation. This follows the “Redmond Review”, which reported in September 2020.

The response confirms plans to establish a new regulator, the Audit Reporting and Governance Authority (ARGA), as the system leader for local audit within a new, simplified local audit framework.

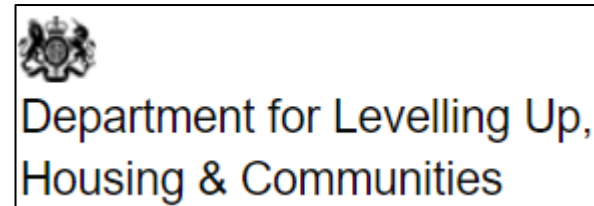
Ahead of ARGA’s establishment, a shadow system leader arrangement will start at the Financial Reporting Council (FRC) from September 2022.

The consultation response also announces:

- Plans to make audit committees compulsory for all councils, with each audit committee required to include at least one independent member. This will create greater transparency and consistency across local bodies.
- ARGA will take over statutory responsibility for preparing and issuing the Code of Audit Practice (from the National Audit Office).
- A post-implementation review of the new Value for Money arrangements. The Code is a key part of the local audit system, and it is important to ensure that it helps to facilitate effective local audit. To allow time for the new arrangements to bed in the response proposes this is completed within three years.

The full response can be found here:

[Government response to local audit framework: technical consultation - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/government-response-to-local-audit-framework-technical-consultation)



The Value of Internal Audit – CIPFA

One of the key elements of good governance is an independent and objective internal audit service. Some organisations engage fully and reap significant benefits from the assurance, insight and expertise they bring whilst others pay lip-service to them and see their work as an administrative burden.

CIPFA's recent report, Internal Audit: Untapped Potential, lifts the lid on internal audit in public services. For some chief financial officers and chief executives, this report confirms the value and contribution of internal audit teams with 87% of respondents recognising the contribution internal audit makes to their organisation. However, some leadership teams saw internal audit as providing a basic service at minimal cost.

Getting the most out of the function requires honest conversations and long-term planning. Maintaining appropriate skills and knowledge within the function is necessary to ensure high quality internal audit in public services are retained.

Culture and governance

The Audit Committee should monitor the delivery of internal audit and their output will be a key part of the annual work-plan. However, internal audit is not a substitute for risk management and should enhance the overall assurances received by management. Executives and Officers should engage with internal audit recommendations to ensure the organisation gains maximum value from reviews.

Capacity

Reducing internal audit days can lead to a lack of 'corporate grip' and not identifying issues at an early stage. This report raises concerns over the capacity of internal audit across the public sector. The profession needs to be valued and invested in to make it more attractive to new blood and for bodies to be able to attract the best candidates to their service.

Expectations

To maximise the impact of internal audit, a clear and aligned strategic audit plan and annual audit plan should be in place. This should be agreed with all stakeholders.

Future plans

Internal audit needs to adapt to the changing landscape, including risks such as climate change, digital and technological developments, cyber-security and ongoing financial and service pressures within their planning processes. For financial resilience and medium- and long-term financial strategies internal audit can provide vital independent assurance to decision makers to allow them to take on more risk and be more ambitious. Leadership teams need to be clear on what assurances they will require going forward.

For more information, Rob Whiteman share his views on this report.



Audit and Risk Assurance Committee effectiveness tool – NAO

The National Audit Office (NAO) has published this tool which supports Audit Committees in assessing their effectiveness.

The NAO comment “Audit and Risk Assurance Committees (ARACs) play a crucial role in supporting the effective governance of central government departments, their agencies and arm’s-length bodies.

ARACs are operating in a highly challenging context. Government organisations are managing many short- and long-term risks and are required to be resilient to a number of pressures. This has created an environment where ARACs need to be dynamic and responsive to the changing risk profiles and demands of their organisations. ARACs can see this as an opportunity to work out how they can most proactively work with the Board and accounting officer.

Against this background, the NAO’s effectiveness tool provides a way for ARACs to assess their effectiveness against more than just the basic requirements. It provides aspects of good practice to give ARACs greater confidence and the opportunity to meet the requirements of their role.

The NAO’s effectiveness tool is a comprehensive way for ARACs to assess their effectiveness on a regular basis.”

The tool covers:

- Membership, independence, objectivity and understanding
- Skills and experience
- Roles and responsibilities
- Scope
- Communication and reporting

Although the tool is designed for central government Audit Committees it is also relevant to local government.



The guide can be found here:
[Audit and Risk Assurance Committee effectiveness tool - National Audit Office \(NAO\) Report](#)



© 2022 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

This page is intentionally left blank

The Audit Findings for Somerset Pension Fund

Year ended 31 March 2022

Page 31

Somerset Pension Fund

9 September 2022



Agenda item 7

Contents



Your key Grant Thornton team members are:

Julie Masci

Key Audit Partner

T 029 2034 7506

E julie.masci@uk.gt.com

Liam Royle

Manager

T 0117 305 5787

E liam.c.royle@uk.gt.com

Oscar Edwards

In Charge Auditor

T 0117 305 7705

E oscar.r.edwards@uk.gt.com

Section

1. Headlines
2. Financial statements
3. Independence and ethics

Appendices

- A. Action Plan – Audit of Financial Statements
- B. Audit adjustments
- C. Fees
- D. Audit Opinion

Page

- 3
4
18

20
21
23
24

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.

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: 30 Finsbury Square, London, EC2A 1AG. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

1. 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 2022 for those charged with governance.

Financial Statements

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 give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- 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.

Our audit work was completed on remotely during June-August. Our findings are summarised on pages 6 to 16. We have not identified any material adjustments to the financial statements. Audit disclosure adjustments and unadjusted misstatements are detailed in Appendix A.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the following outstanding matters;

- receipt of one outstanding confirmation from a financial institution;
- review of service auditor reports;
- additional work on Brunel-related level 2 investments;
- receipt of management representation letter, provided as a separate agenda item for this meeting; and
- review of the Annual Report

We have not yet been able to conclude that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited, until the review of the report has been completed.

Our anticipated audit report opinion will be unmodified.

2. Financial Statements

Overview of the scope of our audit

Page 34

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

We have not had to alter our audit plan as communicated to you on 28 July 2022.

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 as detailed in Appendix C. This draft opinion will be finalised following the completion of our the outstanding items as detailed on page 3, and the completion of the County Council audit.

Acknowledgements

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

2. Financial Statements



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 the disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the headline materiality, and consequently the performance materiality and triviality, due to the net assets of the Fund increasing by £226m compared to the prior year, resulting in a review of the appropriateness of the materiality figure.

We detail in the table to the right our determination of materiality for Somerset Pension Fund.

	Pension Fund Amount (£m)	Qualitative factors considered
Materiality for the financial statements	£28.450	Financial statement materiality was determined based on a proportion of the net assets of the Fund at the end of the financial year.
Performance materiality	£21.340	Set at 75% of materiality.
Trivial matters	£1.423	Set at 5% of materiality.



2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Commentary

The revenue cycle includes fraudulent transactions (rebutted)

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.

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:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including Somerset Pension Fund mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for Somerset Pension Fund.

No specific work was planned or performed as the presumed risk has been rebutted. We have reconsidered this rebuttal during the audit and confirm that this remains appropriate for Somerset Pension Fund.

The expenditure cycle includes fraudulent transactions (rebutted)

Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) states:

"As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit.

We have rebutted this presumed risk for Somerset Pension Fund because:

- expenditure is well controlled and the Fund has a strong control environment; and
- the Fund has clear and transparent reporting of its financial plans and financial position to those charged with governance.

We therefore do not consider this to be a significant risk for Somerset Pension Fund.

No specific work was planned or performed as the presumed risk has been rebutted. We have reconsidered this rebuttal during the audit and confirm that this remains appropriate for Somerset Pension Fund.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Management over-ride of controls

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

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.

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals ;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our work has not identified any issues with regards to management override of controls. However, we note that there is no formal approval process for posting journals, effectively allowing finance team members to self-approve. This represents a weakness in controls.

Valuation of Level 3 Investments

The Fund revalues its investments on an annual basis at the year end to ensure that the carrying value is not materially different from the fair value at the financial statements date.

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

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.

Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2022.

We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- evaluated management's processes for valuing Level 3 investments;
- reviewed the nature and basis of estimated values and considered 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;
- independently requested year-end confirmations from investment managers and custodians;
- 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 agreed these to the fund manager reports at that date. We further reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period. In the absence of available audited accounts, we evaluated the competence, capabilities and objectivity of the valuation expert;
- tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; and
- where available reviewed investment manager service auditor report on design effectiveness of internal controls.

Our work has identified one issue, where due to the timing of fund manager reports the Fund has used the valuation report dated 31 December 2021. As part of our audit procedures we have reviewed the 31 March 2022 reports that were provided to the Fund in July 2022, after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £14.6m and therefore that the estimate as at the 31 March 2022 was understated by this amount. We have reported this as an unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information. The same misstatement was identified in the prior year for the same reason – this has no impact on the balance as at 31 March 2022.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of the pension fund net liability

The Fund has chosen Option A in disclosing the actuarial present value of promised retirement benefits. As such, the Fund's liability, as reflected in its Net Asset Statement, represents a significant estimate in the financial statements.

The pension fund is a Local Government Pension Scheme, administered by Somerset County Council. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£4,873 million in the Net Asset Statement) and the sensitivity of the estimate to changes in key assumptions.

We have therefore identified valuation of the Fund's liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

Commentary

We will:

- update our understanding of the processes and controls put in place by management to ensure that the Fund's liability is not materially misstated and evaluate the design of the associated controls;
- evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assess the competence, capabilities and objectivity of the actuary who carried out the valuation;
- assess the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;
- test the consistency of the disclosures in the notes to the core financial statements with the actuarial report from the actuary; and
- 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,

Our work has not identified any issues with regard to the valuation of the pension fund net liability.

2. Financial Statements – new issues and risks

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant deficiencies identified during the year.

Issue	Commentary	Auditor view
<p>IT Control deficiencies</p> <ul style="list-style-type: none"> The general ledger and all integrated ledger systems at Somerset County Council run on the SAP database, including those relating to Somerset Pension Fund. Due to the complex nature of the SAP database, the TRS team have undertaken a detailed review of the IT systems at Somerset. This has resulted in four deficiencies being identified. In addition, four findings from the prior year have not been remedied. 	<p>Of the deficiencies identified, three were considered to be significant and one was considered to be non-significant.</p> <p>The significant deficiencies were:</p> <ul style="list-style-type: none"> Segregation of duty conflicts within SAP: Users with excessive privileged access rights within SAP. There is a risk that these access rights can be used to make unauthorised changes to the application, business processes or user accounts by overriding internal system controls, which could lead to fraud and/or financial misstatement. Inappropriate segregation of duties as developers have access to production: A review was performed on all users with the ability to develop changes in development with those with the ability to create/import transports in production via STMS. The risk here is that the combination of access to develop and implement changes in production environment, and a risk of unauthorised changes being made. Users with inappropriate access to ABAP debugger in production: Unauthorised access to ABAP debugger granted via S_DEVELOP authorisation object in change mode increases the risk of unauthorised change or deletion of table entries. The ability to perform debugging functions may give a user the ability to bypass authority checks and execute transactions that they are not authorised to do. <p>The non-significant deficiency was:</p> <ul style="list-style-type: none"> SAP production client configuration settings are not appropriately configured: The primary finding was that one user account of AYASIR from HCL (Third party providing SAP services) was assigned with active developer keys in production along with the ability to develop changes in production. Where settings do not restrict the implementation of direct changes in production, there is a risk of unauthorised changes. <p>In addition, four deficiencies from the prior year have not been remedied:</p> <ul style="list-style-type: none"> Inadequate password security for SAP Proactive reviews of logical access within SAP Logging policies not enforced Absence of change controls over SAP batch jobs and schedules 	<p>The significant deficiencies identified present risks in relation to the IT control environment at the Council and Pension Fund. We note we have not identified any instances in year where any such override of controls had occurred as a result of these deficiencies.</p> <p>These findings will also be communicated in the Council findings report.</p>

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £85.786m	<p>The Pension Fund has level 3 investments that in total are valued on the balance sheet as at 31 March 2022 at £85.786m. The total of this balance is made up of private equity funds. The level 3 investments are not traded on an open exchange or 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 31 to the financial statements.</p> <p>Due to the timing of fund manager reports the Fund has used the valuation report dated 31 December 2021. As part of our audit procedures we have reviewed the 31 March 2022 reports that were provided to the Fund in July 2022, after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £14.6m and therefore that the estimate as at the 31 March 2022 was understated by this amount. We have reported this as an unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information.</p> <p>The value of the investment has increased by £13.327m in 2021/22.</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed management's assessment and estimation process for level 3 investments and consider it to be robust; assessed the estimates provided for level 3 investments and tested the validity of the assumptions; assessed the adequacy of management's experts; tested the appropriateness of the underlying information used to determine the estimate; reviewed the consistency of the estimate against industry practice and previous audit work; tested the reasonableness of the increase in the estimate; and reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy. <p>Due to the timing of the valuation reports used in producing the estimate we consider management's assumptions to be cautious, as we have noted an understatement of £14.6m as per page 7.</p>	Grey

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £2,620.132m	<p>The Pension Fund have investments in pooled equity funds, pooled bonds, and property funds that in total are valued at £2,620.132m as at 31 March 2022.</p> <p>Management rely upon the custodian to provide the financial investment values. This is provided in a monthly report, detailing each Fund's performance and value. Management review this report for accuracy and completeness. As well as obtaining the custodian report, the Pension Fund also obtain details direct from the Fund Manager and complete a comparison between their estimate, the custodian's estimate, and the Fund Manager's estimate. All significant variances are reviewed and addressed.</p> <p>As the level 2 valuations are based upon observable inputs the degree of estimation is minimal and both the fund managers and custodians are able to provide robust assumptions for values at year end. Nevertheless, there is a degree of estimation adopted in the valuation process and therefore there is an element of subjectivity.</p> <p>The basis of valuation for each category of level 2 investment is set out in note 31 to the financial statements.</p> <p>The value of the investments has increased by £631.912m in 2021/22.</p>	<p>We have:</p> <ul style="list-style-type: none"> reviewed management's assessment and the estimation process for level 2 investments and consider it to be robust; assessed the estimates provided for level 2 investments and tested the validity of the assumptions; assessed the adequacy of management's experts; tested the appropriateness of the underlying information used to determine the estimate; reviewed the consistency of the estimate against industry practice and previous audit work; tested the reasonableness of the increase in the estimate; and reviewed the reasonableness of the sensitivities disclosed in the estimates section of the accounting policy. <p>Based on our work completed to date we consider the key assumptions to be reasonable. We will finalise our conclusion in this area once we have completed our work in regards to Brunel, as highlighted on page 3.</p>	Light Purple

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - key judgements and estimates

Page 42

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Valuation of the pension fund net liability - £4,872.760m	<p>The Fund has chosen Option A in disclosing the actuarial present value of promised retirement benefits. As such, the Fund's liability, as reflected in its Net Asset Statement, represents a significant estimate in the financial statements.</p> <p>The estimate is calculated by the Fund's actuary, and is prepared in accordance with IAS 26. In calculating the amounts disclosed the actuary adopts methods and assumptions that are consistent with IAS 19.</p> <p>A full valuation is undertaken on a triennial basis. The most recent triennial valuation is based on data as at the 31 March 2019. In between valuations, the actuary rolls forwards the value of the liabilities calculated as at the last valuation, updated on the basis of significant underlying assumptions set with reference to market conditions as at the net asset statement date. There has been a £59.876m net actuarial gain during 2021-22.</p>	<p>We have:</p> <ul style="list-style-type: none"> assessed management's expert assessed the actuary's approach taken and deemed it reasonable used PwC as auditor's expert to assess actuary and assumptions made by actuary (see table below) confirmed the completeness and accuracy of the underlying information used to determine the estimate confirmed the reasonableness of the decrease in the liability estimate confirmed the adequacy of the disclosure of the estimate in the financial statements <p>Our audit work has not identified any issues in respect of the valuation of the pension fund net liability.</p>	Light Purple																								
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.6%</td> <td>2.55% - 2.6%</td> <td>● Light Purple</td> </tr> <tr> <td>Pension increase rate</td> <td>3.55%</td> <td>3.30% - 3.95%</td> <td>● Light Purple</td> </tr> <tr> <td>Salary growth</td> <td>4.20%</td> <td>4.20%</td> <td>● Light Purple</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>24.4 / 23.1</td> <td>21.9 – 24.4 / 20.5 – 23.1</td> <td>● Light Purple</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.1 / 24.7</td> <td>24.9 – 26.4 / 23.4 – 25.0</td> <td>● Light Purple</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.6%	2.55% - 2.6%	● Light Purple	Pension increase rate	3.55%	3.30% - 3.95%	● Light Purple	Salary growth	4.20%	4.20%	● Light Purple	Life expectancy – Males currently aged 45 / 65	24.4 / 23.1	21.9 – 24.4 / 20.5 – 23.1	● Light Purple	Life expectancy – Females currently aged 45 / 65	26.1 / 24.7	24.9 – 26.4 / 23.4 – 25.0	● Light Purple	
Assumption	Actuary Value	PwC range	Assessment																								
Discount rate	2.6%	2.55% - 2.6%	● Light Purple																								
Pension increase rate	3.55%	3.30% - 3.95%	● Light Purple																								
Salary growth	4.20%	4.20%	● Light Purple																								
Life expectancy – Males currently aged 45 / 65	24.4 / 23.1	21.9 – 24.4 / 20.5 – 23.1	● Light Purple																								
Life expectancy – Females currently aged 45 / 65	26.1 / 24.7	24.9 – 26.4 / 23.4 – 25.0	● Light Purple																								

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements - 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	Auditor view and management response
<p>At the planning stage we discussed the possible impacts of the war in Ukraine, specifically as they relate to any of Somerset Pension Fund's holdings in Russian investments which may be the subject of sanctions or might otherwise experience a substantial decrease in value.</p>	<p>Per our discussions with Anton, while the Pension Fund had some investments of this nature they were immaterial. The approach taken by management was to fully impair these to a nil value, reflecting both their likely financial value but also the difficulty in divesting from them given restrictions on sales resulting from sanctions and Russian central bank action.</p>	<p>We consider management's treatment to have been both proportionate and appropriate.</p>

2. Financial Statements - 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
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	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.
Written representations	A letter of representation has been requested from the Pension Fund, which is included in the Audit Committee papers.
Confirmation requests from third parties	We requested permission from management to send confirmation requests to custodians and fund managers and the Pension Fund's bank. This permission was granted and the requests were sent and received, with one still outstanding at the date of drafting our report.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



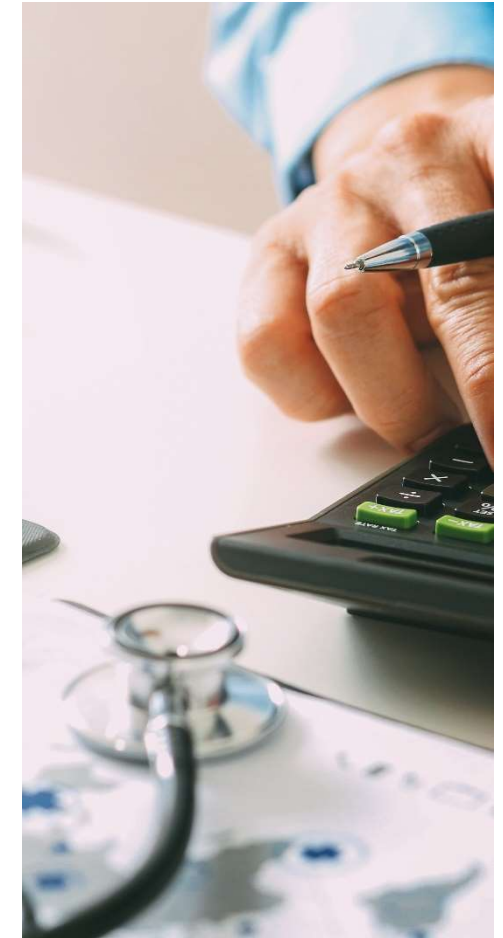
Our responsibility

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 entity's ability to continue as a going concern” (ISA (UK) 570).

Issue	Commentary
Going concern	<p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix C.
Matters on which we report by exception	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 1 December 2022 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.



3. Independence and ethics

Page 47

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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix B.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

3. Independence and ethics

Audit and non-audit services

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 non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Audit of Brunel Pension Partnership Limited (BPP)	40,000	None	<p>We do not consider the audit of BPP as a threat to our independence, as Somerset Pension Fund cannot exercise control over BPP.</p> <p>The audit of BPP is carried out by specialist team, authorised by the Financial Standards Authority.</p> <p>The fee of £40,000 is not significant compared to the audit fees of the ten participating pension funds.</p> <p>Please note that this fee is not included in the financial statements of Somerset Pension Fund as it is payable by BPP.</p>
Non-audit Related			
IAS19 procedures for other bodies admitted to the pension fund.	13,000	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 £13,000 in comparison to the total fee for the audit of £34,596 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.

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 Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

Page 50

We have identified 2 recommendations for the Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2022/23 audit. The matters reported here are 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
	There is no formal approval process for posting journals. Finance team members who have access to post journals can therefore effectively self-approve. This represents a weakness in the control environment as controls can potentially be overridden.	<p>The Council and Pension Fund should implement authorisation controls over journals postings, requiring journals to be authorised by a separate approver before being posted to the general ledger.</p> <p>Management response</p> <p>This issue is one which requires a response from the County Council. I understand that this will be raised in their Audit Findings Report and a full response provided there.</p>
	A number of deficiencies in relation to IT general controls have been identified on page 9. These represent weaknesses in the control environment which should be rectified.	<p>The Council and Pension Fund should seek to remedy the controls weaknesses identified by our IT audit team.</p> <p>Management response</p> <p>This issue is one which requires a response from the County Council. I understand that this will be raised in their Audit Findings Report and a full response provided there.</p>

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. 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

There were no non-trivial adjusted misstatements in year.

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	Auditor recommendations	Adjusted?
Note 9 included all audit and non-audit fees in year as a single line. In addition, the footnote disclosing the reconciliation between the fees in the note and the fees in our audit plan had not been updated from the 2020/21 accounts.	The note should be updated to accurately reflect the split between audit and non-audit fees, and to make clear how the fee in our Audit Plan was reflected in the accounts. Management response Recommended adjustment has been made.	✓
The group transfer value paid line and the individual transfer value paid line in Note 5 were transposed. This had no impact on the overall transfer values paid.	The note should be updated to correct the transposition error. Management response Recommended adjustment has been made.	✓
Note 32 - Accounting standards issued not yet adopted had not been updated from the prior year.	The note should be updated to reflect the current accounting standards issued but not yet adopted. Management response Recommended adjustment has been made.	✓
A number of other small disclosure amendments were made to the financial statements, e.g. correction of dates or referencing between notes. These have not been reported separately due to their insignificant nature.		✓

B. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
Due to the timing of fund manager reports the Fund has used the valuation report dated 31 December 2021 for one level 3 investment. As part of our audit procedures we have reviewed the 31 March 2022 reports that were provided to the Fund in July 2022, after the draft financial statements were submitted. This work highlighted that the value of these investments had increased by £14.6m and therefore that the estimate as at the 31 March 2022 was understated by this amount. We have reported this as an unadjusted misstatement but recognise that the draft financial statements were produced using the most up to date information.	14,569	14,569	14,569	The difference is immaterial, and relates to a timing difference in the availability of information.
A number of level 2 investments had differences in valuation at 31 March 2022 due to timing of audited financial statements or other trivial differences. Their collective value of £2,669k represents an immaterial unadjusted misstatement.	2,669	2,669	2,669	The difference is immaterial, and relates to a timing difference in the availability of information.
Overall impact	£17,238	£17,238	£17,238	

Impact of prior year unadjusted misstatements

The only prior year unadjusted misstatement related to the 31 March 2021 valuation of the same level 3 investment asset in the first row above. This has no impact on the net asset statement as at 31 March 2022.

C. Fees

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

Page 53

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£34,596	£34,596
Total audit fees (excluding VAT)	£34,596	£34,596

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial statements per the footnote to note 9. There are no variations between the proposed and final fee.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services – IAS 19 assurance letters for Admitted Bodies	£7,000	£13,000
Audit of Brunel Pension Partnership Limited (BPP)*	£40,000	£40,000
Total non-audit fees (excluding VAT)	£47,000	£53,000

*Please note that this fee is not included in the financial statements of Somerset Pension Fund as it is payable by BPP.

The variation between the proposed and final fee for the IAS 19 assurance letters is due to a national rebasing of fee, reflecting the increased level of work required to inform and prepare these assurances, and an additional request from an admitted body received during the final audit.

D. Audit opinion (draft)

Our draft audit opinion is included below.

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

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 2022 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2021/22.

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 2022 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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 are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

D. Audit opinion (draft)

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, 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 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) 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 Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund 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 in relation to the Pension Fund.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 18, 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 Director of Finance. The Director of Finance 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 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

D. Audit opinion (draft)

In preparing the Pension Fund's financial statements, the Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

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. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the Audit Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, accounting estimates, and critical judgements made by management.

D. Audit opinion (draft)

- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
 - journal entry testing, with a focus on management override of control;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments and IAS 26 pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of the net pension liability and the year end investment balances.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government pensions sector
 - understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.

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.

Julie Masci, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor



Somerset County Council

Report of Internal Audit Activity 2022/23

Progress Report – September 2022

Page 59

Agenda item 8

Internal Audit Update – September 2022 – ‘At a Glance’

The Headlines

	<p>Opinion based reviews completed in the period</p> <ul style="list-style-type: none"> • One Reasonable • One Limited
	<p>Progress against the 2022/23 plan</p> <ul style="list-style-type: none"> • Nine planned reviews and support activities completed • Two reviews at draft stage • 12 reviews in progress • 21 additional grants certified
	<p>Follow-ups in the period</p> <p>Three completed. For two there is evidence that risks have reduced sufficiently, and no further follow-up work will be undertaken. One will require further follow up work.</p>
	<p>Additions to the Plan</p> <p>Two new reviews added to the plan following officer requests.</p>
	<p>Review of agreed management actions</p> <p>We have rationalised the recommendations we will continue to track based on risk and the impact of unitary. Where we have ceased tracking, we have highlighted the audit actions to the relevant LGR workstreams.</p>
	<p>Range of innovations and enhancements made to our internal audit process throughout the year</p> <p>Data analytics continues to drive and support reviews. Comparative benchmarking exercises offer useful insight and suggested practices.</p>

Internal Audit Assurance Opinions 2022/23

	YTD
Substantial	0
Reasonable	1
Limited	1
No Assurance	0
Advisory and Grants	4
Follow Up	3
Total	9

Internal Audit Agreed Actions 2022/23

	YTD
Priority 1	2
Priority 2	2
Priority 3	5
Total	9

Summary

As part of our rolling plan reports, we will detail progress against the approved plan and any updates in scope and coverage.

We will also provide details of any significant risks that we have identified in our work, along with the progress of mitigating significant risks previously identified through audit activity.

The contacts at SWAP in connection with this report are:

Alastair Woodland

Assistant Director

alastair.woodland@swapaudit.co.uk

David Hill

Chief Executive

david.hill@swapaudit.co.uk



Summary

This is the September 2022 progress update for 2022/22 and reports against the plan agreed by this Committee in March 2022. The schedule provided at **Appendix D** details progress made to date and new work agreed.

The assurance opinion ratings have been determined in accordance with the Internal Audit “Audit Framework Definitions” as detailed at **Appendix A** of this document. The Committee can take assurance that improvement actions have been agreed with management to address each finding reported.

To assist the Committee in its important monitoring and scrutiny role, in those cases where weaknesses have been identified in service/function reviews that are considered to represent significant service risks, a summary of the key audit findings that have resulted Limited assurance opinions can be found at **Appendix B**. There was one Limited opinion audit to report over the period.

A follow-up review is performed in respect of all Limited assurance opinion audits. The results of follow-up reviews performed in the period can be found in **Appendix C**. This is important to provide evidence that recommendations have been implemented to reduce areas of risk identified. Three follow-up reviews were completed in the period. For two reviews, there was sufficient progress in implementing the agreed actions and no further audit work is required. For the other we concluded that further work is needed.

As well as assurance provided by follow-up audits, managers responsible for agreed actions relating to No or Limited assurance audits have provided us with progress updates. As part of the Legacy Audit Recommendations work, we are rationalising which recommendations we will continue to track based on risk and the impact of unitary. Where we have ceased tracking, we have highlighted actions from the reports to the relevant LGR workstream so the findings can be considered during unitary preparations. An updated tracked action position is included on page 4.

Appendix E is a summary of work agreed and completed in addition to the core Internal Audit Plan.

Internal Audit Plan Update

Our audit plan coverage assessment is designed to provide an indication of whether we have provided sufficient, independent assurance to monitor the organisation’s risk profile effectively.

For those areas where no audit coverage is planned, assurance should be sought from other sources to provide a holistic picture of assurance against key risks.



SWAP audit plan coverage against strategic risks

The table below maps audit work to SCC’s key strategic risks to provide assurance of coverage. The map below is based on work completed and planned for the remainder of 2022-23.

Strategic Risk	Coverage
Climate Change	<ul style="list-style-type: none"> Climate Change Strategy Flood and Water Management
Organisational resilience	<ul style="list-style-type: none"> Adults Workforce Planning LGR workstream support
Adults Sufficiency and Capacity	<ul style="list-style-type: none"> Athena Contract Eclipse Benefits Realisation Adults Workforce Planning
Supplier Disruption	<ul style="list-style-type: none"> Contract Management
Sustainable MTFP	<ul style="list-style-type: none"> Staffing Establishment Review Good Financial Governance Baseline Fraud Assessment Follow Up Highways Application for Payment Follow Up
Safeguarding Children	<ul style="list-style-type: none"> Children Missing from Education Safeguarding Complaints Follow Up Safe Recruitment Follow Up Supporting Families Programme
Local Government Reorganisation	<ul style="list-style-type: none"> LGR workstream support (See Appendix D table 2) New Finance system support
Market Management and development	<ul style="list-style-type: none"> Contract Management LEP grants

	Good coverage
	Adequate coverage
	Light coverage
	No coverage

Internal Audit Plan Update

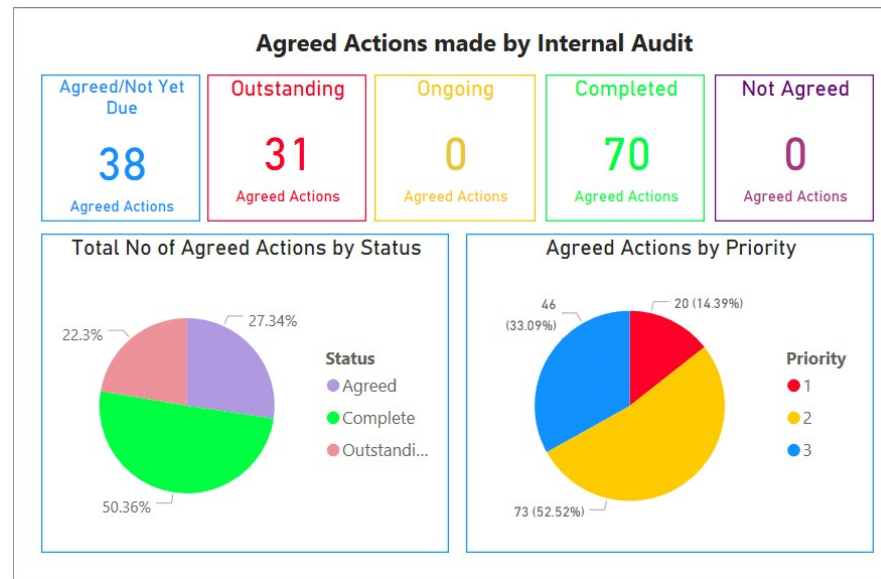
Follow up work confirms the responsive nature of management in implementing agreed actions to mitigate exposure to areas of risk.



Implementation of Agreed Management Actions

As well as assurance provided by follow-up audits, managers responsible for agreed actions relating to limited assurance audits have provided progress updates to internal audit. As part of the Legacy Audit Recommendations work, we are rationalising which recommendations we will continue to track based on risk and the impact of unitary. Where we have ceased tracking, we have highlighted actions from the reports to the relevant LGR workstream so the findings can be considered during unitary preparations.

The chart below shows the current position after rationalising recommendations and accounting for additional officer self-assessments.



There are 31 overdue actions. 26 of these actions are rated Priority 1 or 2. All but one of these actions relate to Education, mostly Schools Finance areas and Berkley School. We have included follow up work for these areas in the 2022/23 Internal Audit Plan.

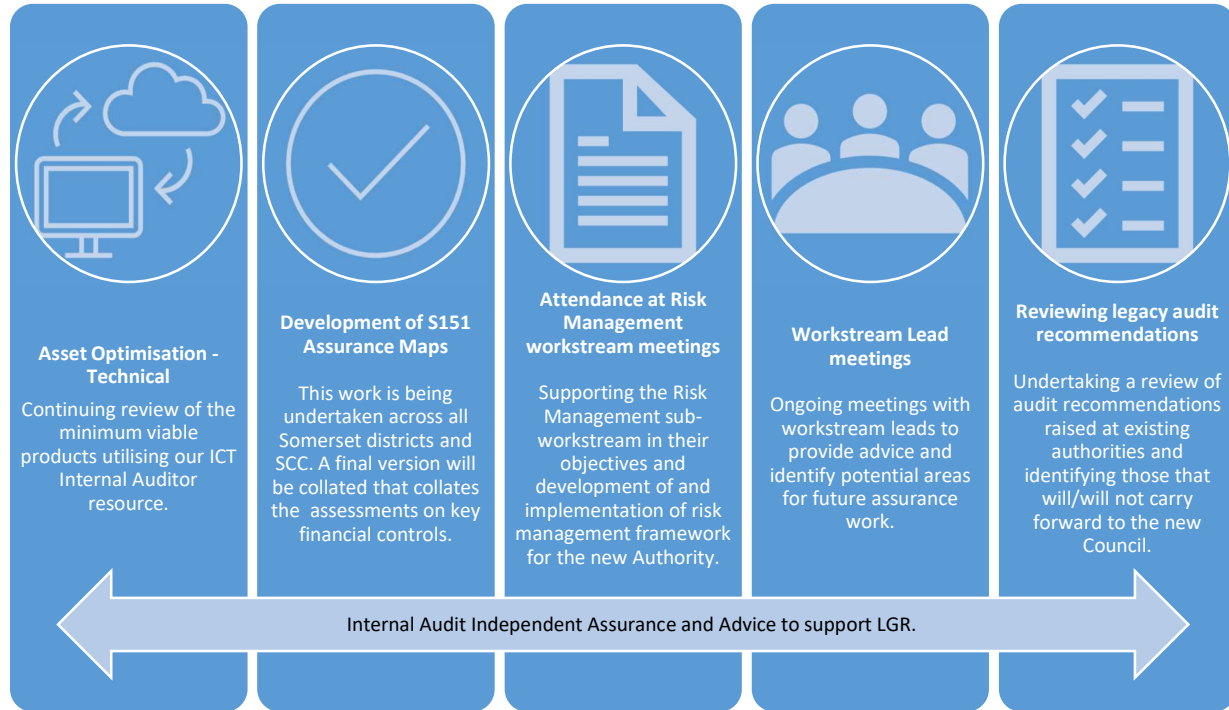
Internal Audit Plan Update

Supporting the formation of the new unitary authority by providing advice and independent assurance on activities being undertaken via the workstreams.



Support for LGR

As part of our planning for 22/23 we have included time to provide Unitary Programme Assurance Work as well as Unitary Workstream support. Most Programme Assurance will be covered by the PWC Quality Reviews. We should be able to take assurance from their work to contribute to the Internal Audit Annual Opinion to avoid any duplication. We will provide a critical friend role to LGR work supporting delivery of outcomes. This is advisory/consultative work with rapid feedback via meetings/e-mail, or brief summary reports. Some of the areas we're focussing on are detailed in the chart below.



Assurance Definitions	
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.
Limited	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited
Reasonable	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Substantial	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Definition of Corporate Risks	
Risks	Reporting Implications
High	Issues that we consider need to be brought to the attention of both senior management and the Audit Committee.
Medium	Issues which should be addressed by management in their areas of responsibility.
Low	Issues of a minor nature or best practice where some improvement can be made.

Categorisation of Recommendations	
In addition to the corporate risk assessment, it is important that management know how important the recommendation is to their service. Each recommendation has been given a priority rating at service level with the following definitions:	
Priority 1	Findings that are fundamental to the integrity of the service's business processes and require the immediate attention of management.
Priority 2	Important findings that need to be resolved by management.
Priority 3	Finding that requires attention.

School Condition Surveys – Final Report – August 2022



Audit Objective To verify whether processes are sufficiently robust to ensure that school property maintenance responsibilities are communicated and monitored.

Assurance Opinion		Number of Actions		Risk Reviewed	Assessment
	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Priority	Number	The failure of systems and controls for school property maintenance and repairs may adversely affect the health and safety of pupils, staff and members of the public, and result in escalating costs to the Local Authority.	Medium
		Priority 1	2		
		Priority 2	2		
		Priority 3	2		
		Total	6		

Key Findings	
	There is no specific documented strategy that determines the responsibilities for the condition of school property.
	There is no agreed process for the monitoring and reporting of school's compliance with their property maintenance responsibilities.
	Recording and monitoring of condition survey data is compromised by the lack of an effective asset management system.
	Some schools lack awareness of and do not routinely assess their estate management in line with recommended best practice.

Audit Scope
The audit reviewed the effectiveness of the following key controls: <ul style="list-style-type: none"> • The strategy for managing school property condition and a plan for delivering it; • The process for conducting and recording condition surveys, including survey scheduling and outcomes; • Collation and monitoring of data to assess compliance and monitor trends; • School's approach to property maintenance responsibilities; • School's awareness of the outcomes of condition surveys and working with stakeholders to co-ordinate repairs and resolve any issues; • Issues resulting from insufficient maintenance are subject to increased monitoring.

Other Relevant Information

Since the last SWAP audit, Corporate Property and the Property & Grounds Maintenance Team within Support Services for Education (SSE) have worked together to improve the quality of information produced from school condition surveys. The Corporate Property service is recording school condition data in a spreadsheet while they await the implementation of a replacement asset management system, TechForge. In the interim, the service could consider implementing data validation via drop-down categories within the spreadsheet, to better manage the categories of information.

Follow up Audit	Scope and Objective	Progress assessment				
		Completed	In progress	Not Started	Total	
Mental Health – Care Plan Reviews and Financial Decision Making	To provide assurance that agreed actions to mitigate against risk exposure identified within the Limited opinion audit have been implemented.	Priority 1	0	0	0	0
		Priority 2	2	4	0	6
		Priority 3	0	0	0	0
		Total	2	4	0	6

Summary of findings:

- Since the initial audit and the implementation of Eclipse, there has been progress with case recording of new care plans and reviews.
- The audit trail of changes to packages of care is not always complete or fully evidenced.
- In some cases, there is no evidence of the financial value of the package of care being approved. This is due to the lack of an agreed approach for completing Peer Forum documentation in the new system, Eclipse.
- An electronic solution is still not in place for obtaining a signed agreement by the care provider to deliver the approved package for residential and nursing care. This means agreements are not consistently evidenced.
- There is a disjointed approach for community care where Mental Health Social Care complete assessments and reviews, but Commissioning source the care and manage the agreements with providers. These agreements are not available on Eclipse and therefore cannot be included as part of the care plan review.

There are several management actions that require further work to ensure that improvements are consistently complied with and evidenced in the system. Therefore, further follow-up work will be required to confirm the actions have been fully effective in improving the control framework.

Follow up Audit	Scope and Objective	Progress assessment				
		Completed	In progress	Not Started	Total	
Supplier Resilience	To provide assurance that agreed actions to mitigate against risk exposure identified within the Limited opinion audit have been implemented.	Priority 1	0	0	0	0
		Priority 2	3	2	0	5
		Priority 3	2	1	0	3
		Total	5	3	0	8

Summary of findings:

- The Contract Procedure Rules (CPR) and Contract Management Framework (CMF) have been updated to include references to supplier resilience checks. The Civil Contingencies Unit's (CCU) guidance on supplier business continuity has been incorporated into the CMF. The CPRs now include a mandatory requirement for contract managers to ensure Tier 1 and Tier 2 suppliers have tested their business continuity plan at least annually.
- Commercial and Procurement has implemented a credit checking system to monitor Tier 1 suppliers, and suppliers whose contracts are worth more than £1m.
- Most contract managers have completed Government Commercial Function contract management training, which includes coverage of business continuity planning.
- While the CPRs and CMF have been updated, there have been no significant updates to the Contract Manager's Toolkit since the last audit. This means there are clear requirements for contract managers to conduct checks, but limited guidance to support them when doing so.
- The CMF has not been established as mandatory guidance due to Local Government Reorganisation (LGR). Due to resource constraints Commercial and Procurement do not expect to update any existing guidance before LGR.

Based on the progress made, we will cease recommendation monitoring. Further guidance should be considered as part of LGR.

Follow up Audit	Scope and Objective	Progress assessment				
		Completed	In progress	Not Started	Total	
Highways Application for Payment	To provide assurance that agreed actions to mitigate against risk exposure identified within the Limited opinion audit have been implemented.	Priority 1	1	1	0	2
		Priority 2	2	1	0	3
		Priority 3	0	0	0	0
		Total	3	2	0	5

Summary of findings:

- The service has made progress with the formation of the contract management team and implementation of the payment management system. There has also been an extension to the certification window, and compliance with the requirements of the certification process have remained at 100%.
- The previously observed issues with a high differential between the value of the ordered works and the payment applied for, have been subject to further fluctuations due to complex operational reasons.
- The service has ceased to analyse the total differentials, and instead opted to address those task orders with higher differentials on a sampled, case-by-case basis.
- There has recently been an increase in the scope of task order auditing by the service, as well as the amount of resource dedicated to it. However, the percentage of audited task orders is still relatively low compared the total value of payments to the contractor. Furthermore, auditing does not yet include a comparison of the true cost estimates for new assets. Identified themes of audit outcomes are not yet provided to management or the contractor, via quarterly reporting.

There are several recommendations that require further work to ensure that improvements are consistently complied with and evidenced in the system. Value differentials remain a concern and represent an ongoing risk in terms of budget management.

We are not proposing further audit work because management have agreed to tolerate the remaining risks until the new highway maintenance contract in 2024.

Table 1 – SCC based work

Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
	1	2	3				
Complete							
Assurance	School Condition Surveys	Complete	Limited	6	2	2	2
Follow Up	Mental Health – Care Plan Reviews and Financial Decision Making	Complete	N/A				
Follow Up	Supplier Resilience	Complete	N/A				
Assurance	LEP Financial Controls	Complete	Reasonable	3	0	0	3
Follow Up	Highways Maintenance – Application for Payment	Complete	N/A				
Grant Certification	BDUK Grant Certification	Complete	Certified				
Grant Certification	New: Universal Drug Treatment Grant	Complete	Certified				
Advisory	Audit Committee Training following Elections	Complete	N/A				
Advisory	Good Financial Governance Checklist	Complete	N/A				
Reporting							
Assurance	Children Missing from Education	Draft					
Follow Up	School Exclusion Data	Draft					
In progress							
Grant Certification	Local Transport Capital Block Funding Grant	In progress					
Assurance	Athena Contract	In progress					

Page 70

Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
					1	2	3
Follow Up	Baseline Assessment of Maturity in Relation to Fraud – Follow-up	In progress					
Advisory	Cifas Support – for targeted support	In progress					
Assurance	Contract Management	In progress					
Grant Certification	Covid Contain Outbreak Management Fund	In progress					
Assurance	Public Health – Reaching Areas of Deprivation	In progress					
Assurance	Establishment Control	In progress					
Grant Certification	Supporting Families Programme Claims	In progress					
Advisory	New Finance System – Build Controls	In progress					
Advisory	New Finance System – Data Validation	In progress					
Advisory	Fraud Recruitment and Selection	In progress					
Waiting to go Live							
Assurance	Adults – Eclipse Benefits Realisation	Waiting to go Live					
Follow Up	Adults – Quality Assurance Framework	Waiting to go Live					
Assurance	Adults – Workforce Planning	Waiting to go Live					
Grant Certification	Bus Recovery Grant	Waiting to go Live					

Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
					1	2	3
Grant Certification	BDUK Milestone Testing	Waiting to go Live					
Assurance	CDM Regulations (Construction Design Management) Maintenance and Infrastructure Highways	Waiting to go Live					
Assurance	Children’s – Recruitment of School Head Teachers and Staff	Waiting to go Live					
Follow Up	Children’s – Berkley School Financial Review	Waiting to go Live					
Follow Up	Children’s Safe Recruitment – Part 2	Waiting to go Live					
Follow Up	Children’s – School Balances	Waiting to go Live					
Follow Up	Children’s SEND – Costed Packages	Waiting to go Live					
Assurance	Climate Change Strategy	Waiting to go Live					
Follow Up	Commissioning and Delivery of New Schools	Waiting to go Live					
Follow Up	Education Safeguarding Complaints & Concerns	Waiting to go Live					
Follow Up	Effectiveness of Schools Forum	Waiting to go Live					
Grant Certification	Emergency Active Travel Fund Grant	Waiting to go Live					
Assurance	Finance – Capital Key Controls	Waiting to go Live					

Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
1	2	3					
Assurance	Flood and Water Management	Waiting to go Live					
Advisory	Fraud related members and officers training	Waiting to go Live					
Assurance	New: Heathfield Community School – Financial Controls	Waiting to go Live					
Grant Certification	Local Authority Bus Subsidy (Revenue) Grant Determination 2021/22	Waiting to go Live					
Grant Certification	Local Transport Capital Block Funding including the Pothole Action Fund	Waiting to go Live					
Assurance	Members Development Strategy	Waiting to go Live					
Assurance	Property – Compliance with Regulations	Waiting to go Live					
Assurance	Schools – SFVS	Waiting to go Live					
Follow Up	Schools Community Learning Partnerships	Waiting to go Live					
Grant Certification	Standard Highways Grant (DFT Funding)	Waiting to go Live					
Grant Certification	Test and Trace Support Grant	Waiting to go Live					
Assurance	Whistleblowing	Waiting to go Live					

Audit Type	Audit Name	Status	Opinion	No of Rec	1 = Major	↔	3 = Medium
				Recommendation			
				1	2	3	
Deferrals and Removals							
Follow Up	Career Development and Pathways	Removed	Actions to be addressed through the People workstream.				
Follow Up	Cash Handling	Removed	New finance system being implemented. Actions to be addressed via Finance workstream.				
Assurance	Charging for Services	Removed	Fees are being aligned for the new Somerset Council, so there is limited value in reviewing current arrangements.				
Follow Up	Compliance with Corporate Purchasing Policy	Removed	Follow up conducted last year showed some progress made. Actions to be addressed via Finance workstream.				
Follow Up	Corporate Management of Health and Safety	Removed	Health and safety arrangements are being reviewed for LGR. Actions to be addressed via People workstream.				
Follow Up	Creditors	Removed	New finance system being implemented. Actions to be addressed via Finance workstream.				
Follow Up	Debt Management	Removed	New finance system being implemented. Actions to be addressed via Finance workstream.				
Assurance	Adults – Financial Assessments	Deferred	Deferred due to forthcoming reform. Deferral agreed with the Director – Adults Services.				
Follow Up	Adults – Imperium/Diverse Rec Contract	Removed	Removal agreed with the Director – Adults Services.				
Follow Up	Vendor Management	Removed	New finance system being implemented. Actions to be addressed via Finance workstream.				

Table 2 The following table summarises LRG Support Work

Audit Type	Audit Area	Status	Opinion	No of Rec	1 - Major 3 - Minor			Comments
					1	2	3	
LRG Support Work								
Advisory	PCIDSS	Complete	Advisory	-	-	-	-	
Advisory	Data Centre	Complete	Advisory	-	-	-	-	
Advisory	IT Minimum Viable Products	Complete	Advisory	-	-	-	-	
Advisory	M365 and Active Directory	Complete	Advisory	-	-	-	-	
Advisory	Risk Management Workstream Support	Ongoing						Q1- Q4
Advisory	Asset Optimisation: Technical Workstream Support	Ongoing						Q1- Q4 (Cyber Security aspects Q3 & Q4)
Advisory	S151 Assurance Map	In Progress						
Advisory	Legacy Audit Recommendations & AGS Actions	In Progress						Q2 – Q4
Assurance	Business Continuity	Not Started						Q4
Assurance	Payroll – transfer of district staff	Not Started						

Page 75

The follow table provides members of the Audit Committee with an overview of the LEP Grant certification work SWAP has undertaken on behalf of SCC during 2022-23.

Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
Complete							
Grant Certification	ERDF - Co Adapt on-the-spot	Complete	Certified				
Grant Certification	Getting Building Fund - M5 J23 Dunball 21/22	Complete	Certified				
Grant Certification	Getting Building Fund - Trenchard Way 20/21	Complete	Certified				
Grant Certification	Getting Building Fund - Trenchard Way 21/22	Complete	Certified				
Grant Certification	Growth Deal - Bruton 20/21	Complete	Certified				
Grant Certification	Growth Deal - Bruton 21/22	Complete	Certified				
Grant Certification	Growth Deal - iAero fit out 20/21	Complete	Certified				
Grant Certification	Growth Deal - iAero fit out 21/22	Complete	Certified				
Grant Certification	Growth Deal - M5 J25	Complete	Certified				
Grant Certification	Growth Deal - Somerset Rivers Authority	Complete	Certified				
Grant Certification	Growth Deal - Taunton Digital Innovation Centre	Complete	Certified				
Grant Certification	Growth Deal - Toneway (18/19)	Complete	Certified				
Grant Certification	Growth Deal - Toneway (21/22)	Complete	Certified				
Grant Certification	Growth Deal - Wells	Complete	Certified				
Grant Certification	Growth Deal - Wiveliscombe	Complete	Certified				

Audit Type	Audit Name	Status	Opinion	No of Rec	1 =	↔	3 =
					Major		Medium
					Recommendation		
	1	2	3				
Grant Certification	Growth Deal - YWC	Complete	Certified				
Grant Certification	Growth Hub - Core Grant	Complete	Certified				
Grant Certification	Growth Hub - Peer Networks	Complete	Certified				
Grant Certification	LEP Growth Deal - Broadband	Complete	Certified				
Grant Certification	LEP Growth Deal - Mobile Boost 20/21 and 21/22	Complete	Certified				
Grant Certification	Wiveliscombe Enterprise Centre Office Rental Accounts	Complete	Certified				
In progress							
Grant Certification	ERDF - Triple C Final Claim	In progress	N/A				
Grant Certification	Bruton Enterprise Centre Office Rental Accounts	In progress	N/A				
Grant Certification	Wells Technology Enterprise Centre Office Rental Accounts	In progress	N/A				
Waiting to go Live							
Grant Certification	ERDF – Co Adapt	Waiting to go Live	N/A				

This page is intentionally left blank

SCC Audit Committee

22nd September 2022

Angela Farmer

Ask of Audit Committee :

- To note the risks of the LGR programme register
- To identify if further reports to the committee would be welcome

Key points for discussion:

- Overview of the management of risks at programme level including how they are monitored
- The risks on the register

Risks for the LGR programme

For this specific programme the definition of risk is:

The effect of uncertainty on objectives

Or in other words....

A potential for something to occur that can have an impact on what you are trying to deliver

Risk Management framework, creating the process to follow to

1. Escalate risks
2. Identify new risks
3. Close risks

Review and monitor

Programme Level risks are reviewed and developed in a number of ways:

1. Weekly review by the LGR Programme Director includes discussion on current risks and potential areas of risk to be explored
2. Monthly through Programme Steering Group and the Programme Board
 1. Current programme level risks and identification of areas for consideration of risk
 2. Any new risks identified to determine if need to be added to the register
 3. Any risks that have been escalated up from workstreams
 4. Any risk for closure
3. Through direct work with the workstreams and their respective project and change managers to ensure that the delivery of mitigation is being undertaken
4. New risks as the workstream develop their products for delivery, and the risks that are associated with the delivery

Review and monitor

5. LGR Joint Scrutiny committee

1. To receive monthly reports on programme level risks, identifying changes and any updates that have taken place to the register
2. Scrutinise particular programme risks with a view to seeking assurance in respect of mitigation and scoring of risks,, e.g.at next Scrutiny meeting, will be looking in depth at Finance – risk 10 and People – risk 11 and 12

LGR Joint Scrutiny – 19th August – overview

Programme level risks presented to Scrutiny on the 19th August following request from LGR Implementation Board – initial introductory presentation given.

Feedback:

- Loss of staff
- Impact of inflation, energy costs, wages
- Concerns over the residual scores of Risk 10 (Budget Gap)
- New areas of potential risks identified
 - Failure to engage with TC/PC
 - Culture and ways of working
 - Impact on residents

Next meeting – 30th September

- Update on programme level risks
- Scrutiny of risk 10 (Budget Gap) and risks 11 and 12 (People)

Introduction to the register

- Currently 19 risks on the register
- Register is set out to show
 - The risk description
 - The impact on the programme of the risk
 - The gross score (Inherent) – the score before any controls or actions
 - The controls (already in place) and the actions (being done)
 - The net score (residual) - the score after any controls and actions

Ref	Risk description	Impact on the programme (effect(Inherent score	Controls/Actions	Residual score	Comments
10	There is a risk of a significant budget gap for new Somerset Council in 2023/24 when districts and County budgets combine, significantly impacting the financial stability of the new Council	<ul style="list-style-type: none"> Inability to set a balanced budget Reductions in service budget and levels 	22	<ul style="list-style-type: none"> Finance and asset protocol a cross 5 councils S24 Notice from DHLUC effective May 2022 Budget monitoring processes in the 5 councils Establishment control processes (People) Development of 22/23 baseline budget for new Council, to provide basis for the development of MTFP for new Somerset Council and 23/24 budget (22	
15	Failure of workstreams/projects to achieve their expected financial benefits as described in business case	<ul style="list-style-type: none"> Lack of achievements of promised overall programme benefits Programme does not meet stakeholder expectations Inability to set a balanced budget 	20	<ul style="list-style-type: none"> Robust benefits realisation plan in place Early modelling/ forecasting of cash-benefits Monitoring through programme reporting framework including escalation and intervention Dedicated LGR Programme Manager in post Tranche 1 products agreed Work on Tranche 2 products started 	19	
24	There is a risk that legacy councils may make spend commitments that adversely affect implementation and benefits delivery	<ul style="list-style-type: none"> Threat to opening financial position of the council. Impact on achievement of the £18.5m financial benefit. Potential for harm to relationships between councils 	20	<ul style="list-style-type: none"> DHLUCs 24 notice Adoption of the Finance and Asset protocol by all 5 councils Guidance produced 	8	
26	The risk that the back-office ERP (Enterprise Resource Planning) system not sufficiently implemented to support the new authority	<ul style="list-style-type: none"> Inability to pay invoices, raise invoices, and monitor spending during the year 	20	<ul style="list-style-type: none"> Implementation plan that delivers in excess of the minimum viable product Continued close management of implementation partner against published programme Clear governance and oversight Independent governance oversight role by SOCITM Reports to formal steering group 	18	

Programme Level Risks - workstream: Service Alignment

Date: August 2022

Page 86

Ref	Risk description	Impact on the programme (effect)	Inherent score	Controls/Actions	Residual score	Comments
228	Lack of a decision around contracts that are reaching the end of their life between now and April 2024	<ul style="list-style-type: none"> Reduction in service levels 	22	<ul style="list-style-type: none"> Engage with finance and procurement sub work streams to ensure that decisions are made that allow sufficient time to put contracts/arrangements in place and to mobilise. 	14	
13	Unforeseen emergency or business continuity interruption or rising tide situation that requires staff to be directed from the day job into incident response.	<ul style="list-style-type: none"> Inadequate resources in project delivery Lack of management capacity Reallocation of programme or existing council resources to support response and recovery 	20	<ul style="list-style-type: none"> 1. Create and maintain a Business Continuity Plan (BCP) for the LGR Programme (signed off by Programme Board) including: <ul style="list-style-type: none"> Engagement with Workstreams to develop the BCP, Engagement with Somerset Local Authorities Civil Contingencies Unit to ensure alignment with wider BCP arrangements across the programme and 5 councils, Internal comms to ensure awareness and buy-in for BCP, Desktop test of BCP. (Resource constraints have delayed completion of this piece of work however more staff have been approved for PMO) 	15	
22	The risk that delivery of ICS implementation is not effectively joined-up with LGR implementation	<ul style="list-style-type: none"> Failure to deliver programme to agreed time, cost and quality. Failure to deliver expected benefits. Missed transformation opportunities 	14	<ul style="list-style-type: none"> Understanding of interdependencies incorporated into LGR work plans and must have Adequate staff resource across both programmes with appropriate capabilities and capacity to address the work 	14	

Ref	Risk description	Impact on the programme (effect)	Inherent score	Controls/Actions	Residual score	Comments
12	Loss of staff from County and District Councils deemed essential to the programme delivery	<ul style="list-style-type: none"> Delays in the delivery of the Programme implementation plan Additional cost of resourcing eg temporary labour Knock-in impacts to BAU service delivery Insufficient level of experience and expertise to deliver the new council operations 	22	<ul style="list-style-type: none"> Delays in the delivery of the Programme implementation plan Additional cost of resourcing eg temporary labour Knock-in impacts to BAU service delivery Insufficient level of experience and expertise to deliver the new council operations- Delays in the delivery of the Programme implementation plan Additional cost of resourcing eg temporary labour Knock-in impacts to BAU service delivery Insufficient level of experience and expertise to deliver the new council operations Mutual aid process in place 	20	
11	The risk that there are insufficient people resources to implement LGR programme and deliver the approved business case	<ul style="list-style-type: none"> Programme not delivered to quality, time and cost Non-cash and cash benefits not delivered Delays in the delivery of the Business Case objectives or compromised quality Unmanageable workloads on staff 	22	<ul style="list-style-type: none"> Early definition of resource requirements (capability and capacity) as part of gateway Validation of 1 with PwC as QA partner incorporating lessons learned from previous LGR programmes Resource shortfalls to be raised to five CEOs to address Interim labour arrangements to be defined as a fall back plan. Dedicated LGR Programme Manager (in post from Jan '22) PwC as quality assurance partner in place from Dec '21. 17 February 2022 agreement to fund additional PMO, project specific and subject matter expertise to the programme. Mutual aid process in place Monthly scorecard resource identification 	14	
25	The risk that BAU activity within the Councils is impacted by stretched staff resources balancing LGR and BAU work	<ul style="list-style-type: none"> Reduced capacity to deliver non=LGR activity to required quality Reputational harm to existing and new councils Loss of staff owing to workload/disruption to services Staff wellbeing 	22	<ul style="list-style-type: none"> Recruitment protocol Staff engagement at local level BAU process at local level to ensure any additional work is scrutinised before agreeing to continue Monitoring key performance indicators for any drop off in service provision/performance Mutual aid process in place Monthly scorecard resource identification 	14	

Ref	Risk description	Impact on the programme (effect)	Inherent score	Controls/Actions	Residual score	Comments
309	The risk that there is insufficient capacity to manage the people side of change	<ul style="list-style-type: none"> Where programme outcomes and benefits results are dependent on collective, proficient adoption of new ways of working 	20	<ul style="list-style-type: none"> Change management approach, quality framework and tools established and in use Supplementary offer to strengthen change capabilities started and will continue to evolve, e.g. targeted interventions and coaching, high risk, high need products in T1 Validation of approach and priorities with PwC and our Unitary partners Working closely with comms and People workstream Plans in place to identify and collaborate with wider change assets across all organisations Mobilisation of tactical change management resource to work alongside and support existing network of change management across all organisations Engagement with programme and WS leads to unite thinking and drive profile of people side of change as core competence of programme Evidence based approach to defining extent and impact of T1 products to define level of need and target resource where needed most Application of data and insight from a cross WS to build programme change plan and EIA support Embedding change management within current assurance practice and reporting Nominated lead for People change 	19	
103	Agreement not reached with Trade Unions on pay scales/terms and condition for new Council staff	<ul style="list-style-type: none"> Employer and Trade Union cannot reach agreement 	9	<ul style="list-style-type: none"> Consideration of plan B if agreement cannot be reached, including utilising Somerset CC terms and conditions 	8	New risk added following PSG/PB August 2022

Ref	Risk description	Impact on the programme (effect)	Inherent score	Controls/Actions	Residual score	Comments
14	Loss of opportunity to align public and VCSE services to new operating model and outcomes as defined in the Business Case	<ul style="list-style-type: none"> Reduced financial and non-financial benefits Poor relationship between partners and new authority Transformational opportunity lost, delayed or reduced Negative impact on cross-cutting outcomes for communities Reputational damage for new council 	20	<ul style="list-style-type: none"> Complete partner and stakeholder mapping exercise (CCP) Targeted engagement with all strategic partners (CCP) Effective ongoing communications with all stakeholders about LGR programme and its objectives (Comms) Effective LCN's Services thinking about the relationship with the public and VCSE in design and delivery (SA) Ensure LGR Advisory Board remains inclusive, transparent and accessible (CCP) Stakeholder management plan(s) for critical products and across workplans (CCP) External communications on purpose and benefits of the LGR programme (Comms) Senior officer engagement with VCSE and partners (CCP) Use of customer panel to hear voice of the public and users (CCP) 	19	
19	Design/products to create new unitary council will not have the community as the central focus in the design of the new operating model	<ul style="list-style-type: none"> Organisational culture is not community focused Inefficient partnership working Poor outcomes for communities Failure to deliver planned business case benefits 	19	<ul style="list-style-type: none"> Programme and workstream checkpoint review criteria Ensure LGR Advisory Board remains effective, inclusive, transparent and accessible (PSG) Embed community focus as a critical requirement of operating model development through workshops, research and engagement (CCP) Ensure TOM development reflects emerging customer strategy and principles (CCP) Engagement with all workstreams to secure agreement/recognition that communities focus goes beyond safe and legal (CCP) Ensure interdependencies are identified and managed through iterative discussion and collaboration (CCP) Specifically, engage with People workstream to support as ethos and culture of communities and customers first (CCP/People) Involve customers and communities in the design of products and services (CCP) Learn from customer experience and feedback (CCP) Develop sound business case to underpin 	18	

Ref	Risk description	Impact on the programme (effect)	Inherent score	Controls/Actions	Residual score	Comments
27	Uncontrolled change to the scope of the LGR programme	<ul style="list-style-type: none"> Failure to deliver the new council to agreed time, cost and quality. Failure to deliver agreed financial and non-financial benefits. Missed transformation opportunities for the new authority Impact on capacity of teams to manage and deliver the programme: rework, wasted effort and reduction in shared understanding of programme priorities and required activity 	19	<ul style="list-style-type: none"> Programme Implementation Manual outlining decision-making tolerances and purpose of change control Current Programme governance arrangements: PMO, Programme Steering Group and Programme Board to identify Change control process in place Strong communication within the programme within the programme promoting adherence to guidance around change control, benefits realisation and risk Quality assurance of workstream reporting Robust scrutiny of programme through LGR Implement Board and LGR Scrutiny 	14	
39	Inter-dependencies between workstreams not managed effectively	<ul style="list-style-type: none"> Inability to deliver cross-cutting products successfully and therefore benefits not realised 	19	<ul style="list-style-type: none"> Programme tranches developed A process/approach for management of dependencies to ensure impacts of change (time/cost/quality) are easily understood at both workstream and programme level. PMO providing assurance against delivery of programme capabilities Dependency management tool in central list (sharepoint) T1 products dependencies to be assessed are T1 sign off (Date: ongoing) Management of dependencies and interdependencies are part of monthly assurance meetings between PMO and workstream (Date: ongoing) 	13	
23	The risk that non-delivery or late delivery of key LGR products that other workstreams are dependant on	<ul style="list-style-type: none"> Missed opportunities Siloed working Failure to deliver key products Delays in workstreams and ultimately the programme Re-engineering of solutions/rework required 	22	<ul style="list-style-type: none"> Reliable critical path is available, with regular opportunities to monitor and course-correct when necessary Regular opportunities for project managers to review with workstream and sub-workstream leads Review of scorecards Robust programme and project planning Modelling interdependencies incorporated into work plans and must haves Adequate resourcing of programme staff with appropriate capabilities and capacity to deliver workplan Utilise lessons learned from other programmes Dedicated LGR programme managers in post 	19	

Programme Level Risks - PMO

Date: August 2022

Page 91

Ref	Risk description	Impact on the programme (effect)	Inherent score	Controls/Actions	Residual score	Comments
21	The risk that the LGR programme negatively impacts service provision and improvement activities of Children's services and Adult Social care	<ul style="list-style-type: none"> • Performance of service for vulnerable adults negatively impacted • Poor external perception of quality of services • Potential Government intervention 	19	<ul style="list-style-type: none"> • Strong communication within the programme • Adherence to project guidelines around Change Control, Benefits realisation and risk. • Horizon scanning • Cross-cutting involvement of senior managers across workstreams in particular Service Alignment and Improvement • Quarterly reporting to Programme Board • PMO engagement and participation with Integrated Care System Governance • Modelling of interdependencies between programmes, reflected in respective plans • Active consideration within the emerging Target Operating Model • Consideration of a review of Governance of CSC and ASC • Ongoing comms with the service • Experience gained from other councils going through LGR taken into consideration in approach 	13	
111	The risk of overspend on the £16.5 m LGR implementation budget	<ul style="list-style-type: none"> • Higher than anticipated LGR programme costs and redundancy payments • Reduction to reserves and longer payback on the Business Case 	20	<ul style="list-style-type: none"> • The approved commitments are being challenged if the funding has not been fully committed to ensure the bid is still required, if it is not or can be reduced this will make more funds available for the programme. • Work is underway to revisit the redundancy figures 	19	New risk added following PSG/PB agreement August 2022

Questions/Recommendations

1. Questions
2. Recommendations:
 1. To note the risks on the LGR Programme Register
 2. To identify if reports to the committee would be welcome