



The Audit Findings for Somerset Pension Fund

Year ended 31 March 2022

Somerset Pension Fund

9 September 2022



Contents



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. 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

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
<p>Management over-ride of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> 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. <p>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.</p>
<p>Valuation of Level 3 Investments</p> <p>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.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2022.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> 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. <p>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.</p>

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

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	
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Assessment

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- **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



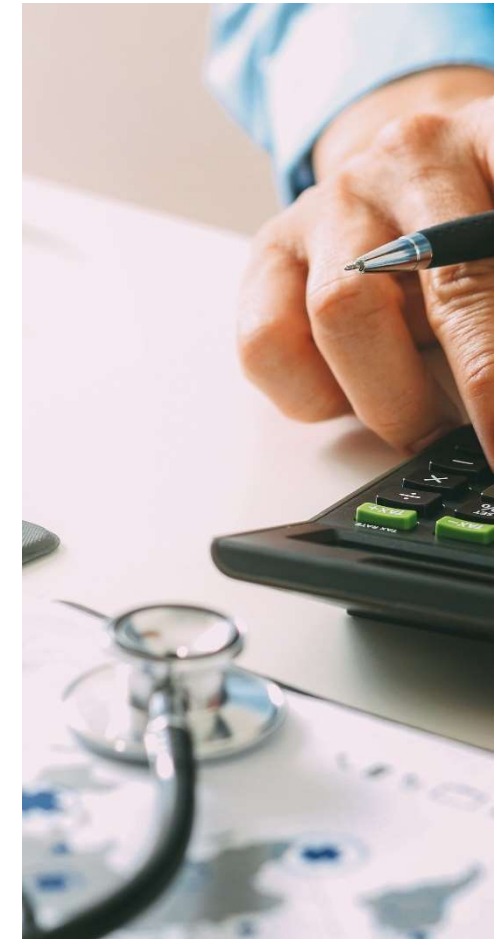
Our responsibility

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

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)	<p>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.</p>

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

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.

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



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