

Somerset Pensions Board
Tuesday 25 July 2017
10.00 am Luttrell Room - County Hall,
Taunton



To: The Members of the Somerset Pensions Board

Cllr M Healey, Paul Deal and Tim O'Connor

Issued By Julian Gale, Strategic Manager - Governance and Risk - 17 July 2017

For further information about the meeting, please contact Michael Bryant on 01823 359048 or mbryant@somerset.gov.uk

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 Section 100A (4) of the Local Government Act 1972.

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



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AGENDA

Item Somerset Pensions Board - 10.00 am Tuesday 25 July 2017

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

1 **Apologies for absence**

2 **Declarations of Interest**

3 **Appointment of a Chair**

For the Board to agree the Chair for the ensuing year. Under the Terms of Reference adopted by the Board the position of Chair is to be reappointed annually.

4 **Minutes from the previous meeting held on 16 March 2017** (Pages 5 - 8)

The Committee is asked to confirm the minutes are accurate.

5 **Public Question Time**

The Chairman will allow members of the public to present a petition on any matter within the Board'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.

6 **Business Plan Update** (Pages 9 - 14)

To consider this report from the Funds & Investments Manager.

7 **LGPS Pooling of Investments** (Pages 15 - 16)

To consider this report from the Funds & Investments Manager.

8 **Analysis of Receipt of Contributions from Employers for 2016/2017** (Pages 17 - 18)

To consider this report from the Funds & Investments Manager.

9 **Review of Pension Fund Risk Register** (Pages 19 - 24)

To consider this report from the Funds & Investments Manager.

10 **Report of Grant Thornton** (Pages 25 - 48)

To consider this report from the Grant Thornton.

11 **Review of Pensions Committee Papers**

To consider the pensions committee papers, which have been circulated separately.

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 – Michael Bryant on Tel (01823) 359048 or 357628; Fax (01823) 355529 or Email: mbryant@somerset.gov.uk
They can also be accessed via the council's website on 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 Michael Bryant, the Committee's Administrator, by 12 noon the (working) day before the meeting.

At the Chairman'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 Chairman. You may not take direct part in the debate. The Chairman will decide when public participation is to finish.

If there are many people present at the meeting for one particular item, the Chairman 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 the following Committee meeting rooms have infra-red audio transmission systems (Luttrell room, Wyndham room, Hobhouse room). To use this facility we need to provide a small personal receiver that will work with a hearing aid set to the T position. Please request a personal receiver from the Committee's Administrator and return it at the end of the meeting.

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 Chairman 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.

SOMERSET PENSIONS BOARD

Minutes of a Meeting of the Somerset Pensions Board held in the Luttrell Room - County Hall, Taunton, on Thursday 16 March 2017 at 10.00 am

Present: Cllr M Healey (Chairman), Paul Deal, Patricia Rowe and James Gilbody

Other Members present:

Apologies for absence: Tim O'Connor

56 Declarations of Interest - Agenda Item 2

Mr Deal, Mr Gilbody and Mrs Rowe declared personal interests as members of the Local Government Pension Scheme.

57 Minutes of the last meeting held on 22 July 2016 - Agenda Item 3

The minutes of the meeting held on 22 July 2016 were accepted as being accurate and were signed by the Chairman.

58 Public Question Time - Agenda Item 4

There were no members of the public present and no questions were asked, statements/comments made or petitions presented.

59 Business Plan Update - Agenda Item 5

The Board considered its Business Plan for the coming year and made the following adjustments and additions:

- To arrange for training for Board members (the Fund & Investment Manager to action, possibly in connection with training for new councillors following the May 2017 elections). Grant Thornton agreed to give a short presentation when required;
- It was noted that the next meeting would be held on 25 July;
- It was noted that the Actuary would be invited to attend the Board meetings in September and December
- To include performance statistics from Peninsula Pensions; Ms Thompson agreed to provide monthly reports to highlight monthly data.

60 LGPS Pooling of Investments - Agenda Item 6

The Board considered a report by the Fund & Investment Manager which gave an update on the work towards the pooling of the Fund's investment assets with other LGPS funds with pooling beginning in April 2018. It was noted that a full business case (FBC) had been produced by the Brunel Project Office and agreed by the Pensions Committee at its meeting in December 2016 and all the other 9 Funds involved in the Brunel project had agreed the full business case.

It was also reported that the various project officers were now focussed on establishing the FCA regulated company and transition of assets from April 2018. The first tangible evidence of this had been the advert for a non-executive Chair for the Brunel Company and non-executive directors, which was placed in the Sunday times last January. Interviews with candidates for the Chair position were taking place and it was hoped a preferred candidate would be identified shortly. Once the Chair was in place they would lead the processes for the recruitment for the other non-executive directors and the CEO of the company.

The Board heard that Pensions Committee, at its meeting on 3 March had recommended to the Council that the Fund's position on the oversight board (separate to the Brunel Company board) should be included in the specification for the role of the Chairman of the Pensions Committee and that they would hold the shareholders rights for the Somerset Fund which they would use in consultation with the Pensions Committee.

The report was accepted and it was noted that considerable work was underway on drafting various legal documents in order to form the Brunel Company.

61 Review of Pension Fund Risk Register - Agenda Item 7

The Board considered this report that provided an update on the risk register since the last meeting. The risk register, attached to the report as Appendix A, was discussed and the Funds and Investments Manager provided an overview of each risk and the mitigating actions and control measures.

There was a question about how often the risk register was refreshed and/or updated and it was explained that this was undertaken on a monthly basis with Officers checking to ensure that the control measures already in place were adequate. There were brief discussions about PF2, PF3 and PF8 and the report was accepted.

62 Review of Administration Performance - Agenda Item 8

The Board received a paper that provided the requested bi-annual update on the performance of Peninsula Pensions, the shared service that provided benefits administration to the Somerset and Devon Pension Funds.

It was noted that overall the report presented a positive overview of performance and for 2014/15 88% of work had been within defined targets, although backlogs of work in some areas were building up. It was reported that in 2015/16 the team had issued 71% of work within target however the backlog of Deferred Benefit calculations had also increased in that period.

Attention turned to performance to date for 2017/17 and it was noted it stood at 76% and with the exception of 4 areas all processes had seen an improvement on last year. Members considered Annex A of the report that provided details of performance relating to the Somerset Fund only.

The Board commended the team for all their hard work over this period. It was requested that interim reports on performance be circulated outside of formal Board meetings and the report was accepted.

63 Pension Fund 16/17 Audit Plan - Agenda Item 9

The Board considered this report from the External Auditors. The Board heard from the External Auditor who provided a thorough overview of the planned Audit of the Somerset Pension Fund. It was reported that in planning the Audit the External Auditors would plan so that they had an understanding of the challenges and opportunities facing the Pension Fund and those included: Pooling of Investments; Governance arrangements; and the earlier close down of accounts by the 2017/18 financial year.

It was also stated that the Auditors would consider the impact of key developments in the sector and take account of national audit requirements. The report also identified the significant risks that would be addressed and results of interim audit work were noted. The Board also received an explanation of the concept of materiality in planning and performing an audit and what this meant in real monetary terms.

There was a brief discussion of the report with the External Auditor providing answers to questions. The report was accepted.

64 Review of Pension Committee papers - Agenda Item 10

The Board considered the agenda and reports from the 3 March 2017 meeting of the Pensions Committee, with the Funds and Investments Manager providing an overview of the reports. The following topics were covered in discussion:

- Analysis of Performance: the Board was pleased to note that most targets had been met and the overall value of the Fund continued to rise.
- Budget and Membership Statistics Update: the Board noted that membership had increased and that the financial year was progressing as expected.
- Employer Body Update: Ms Thompson gave a brief update, including the fact that an increasing number of Town and Parish Councils were joining the Fund.

65 2018 Pension Board meeting dates - Agenda Item 11

The Board considered this report that proposed meeting dates for the forthcoming year. Members noted the report and agreed the following dates for 2018:

- Thursday 15 March 2018 at 10.00 am at County Hall, Taunton;
- Tuesday 24 July 2018 at 10.00 am at County Hall, Taunton;
- Thursday 27 September 2018 at 10.00 am at County Hall, Taunton;
- Thursday 20 December 2018 at 10.00 am at County Hall, Taunton.

In addition it was noted that the Pension Fund AGM in 2017 would be held on the morning of Friday 22 September 2017, at a venue to be confirmed and Pension Board Members were welcome to attend.

66 Any other business of urgency - Agenda Item 12

There were no other or urgent items of business, the Chairman thanked all those present for attending and closed the meeting.

(The meeting ended at 11.45 am)

CHAIRMAN

Business Plan Update

Lead Officer: Kevin Nacey: Director of Finance and Performance

Author: Anton Sweet: Funds and Investments Manager

Contact Details: (01823) 359584
asweet@somerset.gov.uk

Executive Portfolio Holder: Not applicable

Division and Local Member: Not applicable

1. Summary

- 1.1 To update the Board's forward work-plan and agree topics for consideration at future meetings.

2. Issues for consideration

- 2.1 The Board should indicate what they would like to consider at meetings during 2017 beyond standard items, specifically for the September 2017 meeting.

3. Background

- 3.1 To help manage the workload of the Board and allow officers to properly plan for and produce the necessary papers it is a practical necessity for the Board to adopt and populate a work-plan.

4. Consultations undertaken

None

5. Financial Implications

None

6. Background Papers

None

Note For sight of individual background papers please contact the report author.

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SOMERSET COUNTY COUNCIL PENSION FUND

Appendix A

PENSION BOARD

MEETING WORKPLAN - 2017

Date	Proposed Items of Business	Lead Officer
22-Sep-17	<p><u>ANNUAL MEETING</u></p> <p>Annual Employers Meeting of the Pension Fund at Dillington</p>	
28-Sep-17	<p><u>FORMAL MEETING</u></p> <p>1. Business Plan Update To consider progress against the Board's approved work-plan.</p> <p>2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>3. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>4. Review of Pensions Committee papers To consider the most recent pensions committee papers and any arising matters</p> <p>5. Review of Benefit Administration Performance To consider the performance of Peninsula Pensions.</p>	<p align="center">AS</p> <p align="center">AS</p> <p align="center">AS</p> <p align="center">AS</p> <p align="center">CT/RL</p>

SOMERSET COUNTY COUNCIL PENSION FUND

Appendix A

PENSION BOARD

MEETING WORKPLAN - 2017

Date	Proposed Items of Business	Lead Officer
21-Dec-17	<p><u>FORMAL MEETING</u></p> <p>1. Business Plan Update To consider progress against the Board's approved work-plan.</p> <p>2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>3. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>4. Review of Pensions Committee papers To consider the most recent pensions committee papers and any arising matters</p>	<p align="center">AS</p> <p align="center">AS</p> <p align="center">AS</p> <p align="center">AS</p>
15-Mar-18	<p><u>FORMAL MEETING</u></p> <p>1. Business Plan Update To consider progress against the Board's approved work-plan.</p> <p>2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>3. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>4. Review of Pensions Committee papers To consider the most recent pensions committee papers and any arising matters</p> <p>5. Review of Benefit Administration Performance To consider the performance of Peninsula Pensions.</p> <p>6. Pension Fund Audit Plan for 2017/2018 To consider the Audit Plan as drafted by the Fund's External Auditor</p>	<p align="center">AS</p> <p align="center">AS</p> <p align="center">AS</p> <p align="center">AS</p> <p align="center">CT/RL</p> <p align="center">GT</p>

SOMERSET COUNTY COUNCIL PENSION FUND

Appendix A

PENSION BOARD

MEETING WORKPLAN - 2017

Date	Proposed Items of Business	Lead Officer
24-Jul-18	<p><u>FORMAL MEETING</u></p> <p>1. Business Plan Update To consider progress against the Board's approved work-plan.</p> <p>2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>3. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>4. Review of Pensions Committee papers To consider the most recent pensions committee papers and any arising matters</p> <p>5. Analysis of Receipt of Contributions from Employers To consider the process and timeliness of the collection of contributions from employers</p> <p>6. External Audit 2018 To consider the report of the External Auditor on the Fund's Annual Report and Accounts for 2017/2018.</p>	<p align="center">AS</p> <p align="center">AS</p> <p align="center">AS</p> <p align="center">AS</p> <p align="center">AS</p> <p align="center">GT</p>

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LGPS Pooling of Investments

Lead Officer: Kevin Nacey: Director of Finance and Performance
Author: Anton Sweet: Funds and Investments Manager
Contact Details: (01823) 359584
asweet@somerset.gov.uk
Executive Portfolio Holder: Not applicable
Division and Local Member: Not applicable

1. Summary

- 1.1 Under guidance published by the Government on “LGPS: Investment Reform Criteria and Guidance” in November 2015 we are required to work towards the pooling of the Fund’s investment assets with other LGPS funds with pooling beginning in April 2018.

2. Issues for consideration

- 2.1 The report is for information only.

3. Background

- 3.1 Following the Government’s announcement in the July 2015 budget statement that they intended to work with Local Government Pension Scheme (LGPS) administering authorities to ensure that they pool investments to significantly reduce costs, significant work has been undertaken to set up the Brunel Pension Partnership comprising ten LGPS Funds.
- 3.2 The Government required an initial response by 19th February 2016, and a joint submission with the other nine Brunel funds was agreed by the Pensions Committee at its special meeting on 5th February. A further more detailed response was required by 15th July 2016 and a further Brunel submission was agreed by the Pensions Committee at its meeting on 29th June.
- 3.3 A full business case (FBC) has been produced by the Brunel Project Office and was agreed by SCC Pensions Committee at its meeting on 2nd December 2016. Subsequently all of the other 9 Funds involved in the Brunel project have agreed the full business case.

- 3.4 Within the project officers are now focussed the setting up of the FCA regulated company and transition of assets from April 2018. The first tangible evidence of this is the advert for a non-executive Chair for the Brunel Company and non-executive directors, which was placed in the Sunday times on 16th January 2017. Interviews with candidates for the Chair position are currently taking place and it is hoped a preferred candidate will be identified shortly. Once the Chair is in place they will lead the processes for the recruitment for the other non-executive directors and the CEO of the company.
- 3.5 As part of setting up the constitutional arrangements for the Brunel project the Pensions Committee, at its meeting on 3rd March, made a recommendation to SCC's full council that the Fund's position on the oversight board (which is separate to the Brunel Company board) should be included in the specification for the role of Chair of the Pensions Committee and that they would hold the shareholders rights for the Somerset Fund which they would use in consultation with the Pensions Committee.
- 3.6 Work on drafting and agreeing the various legal documents needed in order to form the Brunel Company is nearing completion.
- 3.7 The non-executive Chair and other non-executive directors have been appointed. The Chair of the Brunel Pension Partnership Company board is Denise Le Gal. The 2 independent non-executive directors are Mike Clark and Frederique Pierre-Pierre, and the shareholder non-executive director is Steve Tyson. Brief biographical details of all of the appointments can be found on the Brunel website www.brunelpensionpartnership.org
- 3.8 The process for appointing the executive directors is well advanced and announcements are expected over the summer.

4. Consultations undertaken

None

5. Financial Implications

- 5.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods.

6. Background Papers

None

Note For sight of individual background papers please contact the report author.

Analysis of Receipt of Contributions from Employers for 2016/2017

Lead Officer: Kevin Nacey: Director of Finance and Performance

Author: Anton Sweet: Funds and Investments Manager

Contact Details: (01823) 359584
asweet@somerset.gov.uk

Executive Portfolio Holder: Not applicable

Division and Local Not applicable

Member:

1. Summary

- 1.1 To update the Board's on the effectiveness of the Fund in collecting pensions contributions from employers during the 2015/2016 financial year.

2. Issues for consideration

- 2.1 The Board is asked to note the information within the report and consider whether there has been any material failure to pay contributions by an employer that should be reported to The Pensions Regulator (TPR).

3. Background

- 3.1 Under the LGPS Regulations 2013 employers are required to pay to the Administration authority the contributions stated in the Fund Actuary's Rates and Adjustments Certificate as employer contributions and the employee contributions that have been deducted from members' pay. Typically contributions are due on or before the 19th of the following month to which the contributions are applicable. Under the Regulations the Administering Authority is entitled, but not required, to charge interest on late payments at 1 per-cent above base rate.
- 3.2 In TPR's Code of practice No. 14, "Governance and administration of public service pension schemes" it states "Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable".

3.3 Within the guidance section of TPR's code it indicates that in deciding whether a failure to pay is likely to be of material significance to the Regulator the Administering Authority should consider:

- the cause and circumstances of the payment failure:
- what action the employer has taken as a result of the payment failure, and
- the wider implications or impact of the payment failure.

4. 2016/17 Results

4.1 During 2016/2017 financial year (prior year comparative in brackets) there were 140 (104) instances of late payment, making up 8.63% (6.74%) of payments due. The corresponding figures for more than 10 days beyond due date were 67 (48) instances and 4.13% (3.11%) of payments due.

4.2 Instances of failure to pay by the due date were spread over 55 (30) employers.

4.3 Based on average monthly contributions from employers it is estimated that by value 97.59% (99.66%) of contributions were received on or before due date.

4.4 All contributions due during the year have been received.

5. Consultations undertaken

None

6. Financial Implications

5.1 Significant instances of late payment could have a knock on impact to the Fund's cash flow and investment returns.

7. Background Papers

None

Note For sight of individual background papers please contact the report author.

Review of Pension Fund Risk Register

Lead Officer: Kevin Nacey: Director of Finance and Performance

Author: Anton Sweet: Funds and Investments Manager

Contact Details: (01823) 359584
asweet@somerset.gov.uk

Executive Portfolio Holder: Not applicable

Division and Local: Not applicable

Member:

1. Summary

1.1 The Pension Board have requested that a review of the risk register is a standing item on the agenda for each meeting.

2. Issues for consideration

2.1 The paper is for information only.

3. Changes since last meeting

3.1 There have been no changes to the risks on the register since the last meeting of the Board. The risk score of PF8 has been altered to recognise the small increase in risk associated with the turnover in members following the County Council elections.

4. Background

4.1 Risk management is central to the management of the Pension Fund as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Statement of Investment Principals. The risk register allows for consideration of all of the fund's risks in a single document.

4.2 Guidance issued by CIPFA on the application of the Myner's Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice.

- 4.3 Following on from CIPFA's guidance the Pensions Committee has indicated that it wishes to adopt a risk register. The Pensions Committee have agreed that rather than have a static register that is reviewed periodically that the register should be discussed at every meeting and changes agreed and implemented as necessary.
- 4.4 The current risk register is attached as appendix A and has been prepared using the Somerset County Council risk framework and scoring methodology

5. Consultations undertaken

None

6. Financial Implications

- 6.1 No direct implications

7. Background Papers

None

Note For sight of individual background papers please contact the report author.

Somerset County Council Pension Fund Risk Register - July 2017

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF1 2. Anton Sweet	The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities.	Cash flow forecasting of TM function. Monthly review of asset allocation and cash levels	2	4	8		2	4	8		on-going with quarterly review		
1. PF2 2. Pensions Committee	The pension fund has insufficient available assets to meet its long term liabilities.	Funding Strategy Statement Investment Strategy Statement	3	5	15	The triennial valuation includes provision for restoring the fund to full funding over 25 years The current risk score partly reflects that the fund was 77% funded at the last valuation. An improvement in the funding level will reduce the likelihood of the risk occurring at some point in the future	2	5	10		Review again at next Valuation - 2019		This risk encapsulates the purpose of the fund in trying to always have sufficient assets to meet uncertain future liabilities with a pool of assets with uncertain future investment performance. There is also the need to balance the funding needs of the fund with the desire to keep contributions as low and constant as possible.
1. PF3 2. Stephen Morton	The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.	Admission agreements Guarantee bonds	3	3	9	Ensure the on-going suitability of the guarantees in place with a review after each formal valuation Review of actuarial results to consider employer specific funding ratios and employer 'Hot Spots'	2	2	4	Stephen Morton	2016		Hot Spots' refers to employers whose benefits in payment exceed their contributions in a given period. Review of employer positions and guarantee bonds planned for 2017
1. PF4 2. Kevin Nacey	Vulnerability to long-term staff sickness and staff turn-over, especially for higher graded posts.	None, other than experience of other staff within the sections	3	3	9		2	3	6		on-going with quarterly review	Updated to include positive impact of pooling September 2016	Shared service with Devon makes this less of an issue with respect to benefits administration staff. The move to pooling of investments should make the fund less reliant on a small number of internal officers

Somerset County Council Pension Fund Risk Register - July 2017

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF5 2. Kevin Nacey	Reliance on bespoke IT, which is exacerbated by a lack of experience of these bespoke systems within SouthWest One IT support	As IT systems are refreshed or replaced build in support mechanisms	3	4	12		2	3	6		on-going with quarterly review		Shared service with Devon makes this less of an issue with respect to benefits administration IT
1. PF6 2. Pensions Committee	Risk of Regulatory change: - Implementation of change risks - Consequences of change risks	Continuous engagement with CLG and other interested stakeholders	4	4	16		2	3	6		on-going with quarterly review		The dictated change to pooling of investment arrangements and implementation of this presents a significant risk to the scheme.
1. PF7 2. Stephen Morton	Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.	Internal audit coverage Annual report to committee with feedback from stakeholders Internal procedures and checks	3	3	9		2	3	6		on-going with quarterly review		Long term the greater size of the shared service should see the likelihood of this risk reduce once the implementation phase is completed
1. PF8 2. Pensions Committee	Failure of Pensions Committee to manage the fund effectively	Policies and procedures adopted by pensions committee, specifically the committee training policy	3	4	12		2	4	8		on-going with quarterly review	Updated June 2017 to reflect turnover of Committee following County Council elections	
1. PF9 2. Anton Sweet	Insolvency of the fund's Global Custodian	Fund's assets held in client accounts not as assets of the custodian	2	4	8		2	4	8		on-going with quarterly		The designation of the fund's assets as client assets ensures that they cannot be appropriated by creditors of the Custodian bank in the case of that entity going into administration.

Somerset County Council Pension Fund Risk Register - July 2017

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
		Review of credit worthiness and inherent business risk of custodian at tender phase										quarterly review	As a result we should be able to recover substantially all of the assets of the fund held in custody but there would be considerable administrative and liquidity disruption

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The Audit Findings for Somerset Pension Fund

DRAFT

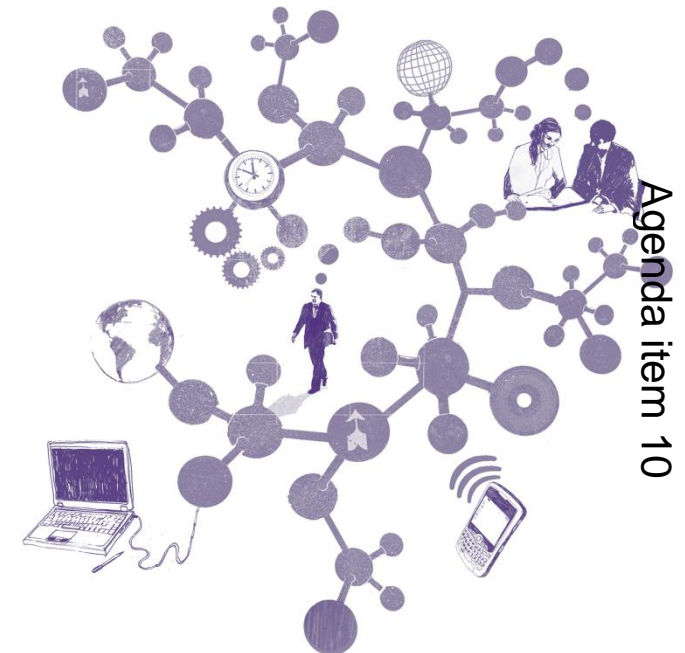
This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Registers
Year ended 31 March 2017
Pension Board: 25 July 2017

Peter Barber
Director
T 0117 305 7897
E peter.a.barber@uk.gt.com

David Bray
Senior Manager
T 0117 305 7889
E david.bray@uk.gt.com

Steph Thayer
In Charge
T 0117 305 7821
E steph.e.thayer@uk.gt.com



Somerset Pension Fund
County Hall
Taunton, Somerset
TA1 4DY

Grant Thornton UK LLP
Hartwell House
55-61 Victoria Street
Bristol
BS1 6FT

T +44 (0)117 305 7600
www.grant-thornton.co.uk

25 July 2017

Dear Members of the Pension Board

Audit Findings for Somerset Pension Fund for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Somerset Pension Fund, the Pension Board), to oversee the financial reporting process, as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Peter Barber
Director

Chartered Accountants

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Section 1: Executive summary

01.	Executive summary
02.	Audit findings
03.	Fees, non audit services and independence
04.	Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Somerset Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 8 March 2017.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the management letter of representation; and
- updating our post balance sheet events review, to the date of signing the opinion.

We have not yet received the Pension Fund Annual Report and so have been unable to check the consistency of that report with the financial statements. This does not affect our ability to issue our opinion on the financial statements, although we will not be able to issue our certificate for the administering authority until this work has been completed.

Key audit and financial reporting issues

Financial statements opinion

We received draft financial statements and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

We did not identify any errors or other areas requiring amendment in the draft financial statements for the year ended 31 March 2017.

The supporting working papers were also produced to a high standard and we received excellent cooperation from officers during our audit.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A).

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention other than the authorisation of journals which we have previously reported to you.

We are required to report all internal control weaknesses and have therefore repeated our findings and the associated recommendation.

The way forward

Matters arising from the financial statements audit of the Fund have been discussed with the Director of Finance and Performance.

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Acknowledgement

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

Grant Thornton UK LLP
July 2017

Section 2: Audit findings

01.	Executive summary
02.	Audit findings
03.	Fees, non audit services and independence
04.	Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £15.980m (being 1% of net assets). We have considered whether this level remained appropriate during the course of the audit and revised our overall materiality to £19.702m on receipt of the financial statements (being 1% of net assets). The increase in materiality reflects the increase in the Fund's net assets.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. In our plan we defined the amount below which misstatements would be clearly trivial to be £799k (5% of materiality). Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation and increased to £985.

As we reported in our audit plan, we identified the following item where we decided that a separate materiality level was appropriate.

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Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures	£160k (being 1% of planning materiality)

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Somerset Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Somerset County Council as the administering body, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • Review of entity controls, including IT. • Review of journal entry process and selection of large and unusual journal entries for testing back to supporting documentation • Review of accounting estimates, judgements and decisions made by management • Review of unusual significant transactions. 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

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"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>The expenditure cycle includes fraudulent transactions Practice Note 10 requires us to consider the risk of material misstatement due to fraudulent financial reporting that may arise from manipulation of expenditure recognition, especially where the body is required to meet targets.</p>	<p>As noted in our audit plan, as part of the audit planning process we considered this risk and did not consider it to require additional audit procedures. We did not consider it to be a risk to the audit as our experience was that expenditure is well controlled and monitored.</p>	<p>Our audit work did not identify any issues regarding expenditure that would invalidate our planning assumptions.</p>
<p>Level 3 Investments valuation is incorrect 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>	<ul style="list-style-type: none"> • We updated our risk assessment on receipt of the draft financial statements as the level 3 investments only accounted for 2% of the total investments of the fund. • On a sample basis we have tested valuations by reviewing the most recent supporting information for individual investments. • Reviewed the qualification of the fund managers as experts to value the level 3 investments at year end and gained an understanding of how the valuation of these investments has been reached. • 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. 	<p>Our audit work has not identified any issues in respect of the valuation of these investments. All the Level 3 investments held by the Fund were in private equity funds.</p>

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Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. For direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert. 	Our audit work has not identified any significant issues in relation to the risks identified.
Contributions	Recorded contributions not correct. (Occurrence)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> Controls testing over occurrence, completeness and accuracy of contributions. Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risks identified.

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"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK&I) 315)

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefits payable	Benefits improperly computed/claims liability understated. (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Controls testing over, completeness, accuracy and occurrence of benefit payments. • Tested a sample of individual pensions in payment by reference to member files. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risks identified.
Investment income	Investment activity not valid. Investment income not accurate. (Accuracy) and occurrence	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. • Completed a predictive analytical review for the investments held. 	Our audit work has not identified any significant issues in relation to the risks identified.
Change in supplier of SAP system	There was a change of supplier for the ledger system SAP in 2016/17	As part of our work at Somerset County Council we obtained assurance over the accuracy of the data migration.	Our audit work has not identified any significant issues in relation to the risks identified.





Going concern

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

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that it is appropriate for the Pension Fund's financial statements to be prepared on a going concern basis.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<p>Contributions are accounted for on an accruals basis, not simply when cash payments are made or received.</p> <p>The Fund account is prepared on a full accruals basis, with the exception of transfer values.</p>	<p>We have no issues to report over the:</p> <ul style="list-style-type: none"> • Appropriateness of the policy relating to contributions • Adequacy of disclosure of accounting policy. 	<p> (Green)</p>
Judgements and estimates Page 37	<p>Management has disclosed its accounting policy and key estimates and judgements around:</p> <ul style="list-style-type: none"> – Asset Valuations (including Level 3 Investments) – Pension Fund Liability – Accruals 	<p>We have no issues to report over the:</p> <ul style="list-style-type: none"> • Appropriateness of the accounting policies disclosed • Adequacy of disclosure of accounting policy 	<p> (Green)</p>
Going concern	<p>Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	<p> (Green)</p>
Other accounting policies	<p>We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice. The Fund's accounting policies are appropriate and consistent with previous years.</p>	<p>Our review of accounting policies has not highlighted any issues which we wish to bring to your attention</p>	<p> (Green)</p>

Assessment

● Marginal accounting policy which could potentially attract attention from regulators (Red)

● Accounting policy appropriate but scope for improved disclosure (Amber)

● Accounting policy appropriate and disclosures sufficient (Green)


Other communication requirements

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



	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Pension Board and the Audit Committee of Somerset County Council. 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.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> 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.
Page 38	Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Fund, which is included in the Pension Board papers.
	Confirmation requests from third parties	<ul style="list-style-type: none"> We sought management permission and obtained direct confirmations from the Royal Bank of Scotland (RBS) for pension fund cash balances.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2017 and this report has not yet been produced. We have not been able to give 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.

Internal controls

The matter that we identified during the course of our audit is set out in the table below. The issue of the authorisation of journals is an ongoing matter and was highlighted in our previous Audit Findings Reports. This recommendation, together with management's response, is included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendation
1. Page 39	 (Amber)	<p>Authorisation of Journals</p> <p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>However, we have found that journal polices do not require journals input to be authorised by a second person.</p> <p>This is an ongoing issue that has been raised for the past four years.</p>	<p>To reduce the risk of material error from journal adjustments made in the general ledger, we recommend that Somerset Pension Fund/ Somerset County Council includes in its journal policy the requirement that all journals should be authorised by a second person.</p>

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

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.

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Adjusted and unadjusted misstatements

No adjustments to the draft accounts were identified during the audit process.

There were no misclassification or disclosure changes identified during the audit.

There are no unadjusted misstatements.

Section 3: Fees, non-audit services and independence

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We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Pension fund audit	23,859	23,859
Total audit fees (excluding VAT)	£23,859	£23,859

The proposed fees for the year were in accordance with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

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Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, 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 Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund and Somerset County Council. No non-audit or audit related services were undertaken.

Section 4: Communication of audit matters

Pages	01. Executive summary
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	04. Communication of audit matters

Communication to those charged with governance

ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

Our communication plan	Audit Plan	Audit Findings Report
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

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Action Plan

B. Audit Opinion

Appendix A: Action plan

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

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B: Audit opinion

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOMERSET COUNTY COUNCIL PENSION FUND

We have audited the pension fund financial statements of Somerset County Council (the "Authority") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes. 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 2016/17.

Page 47 This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

Respective responsibilities of the Director of Finance and Performance and auditor

As explained more fully in the Statement of Responsibilities, Director of Finance and Performance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Performance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion:

- the pension fund financial statements present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the audited pension fund financial statements.

Peter Barber for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House
55-61 Victoria Street
Bristol BS1 6FT
July 2017



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